FINCANTIERI

ANNUAL REPORT
2019

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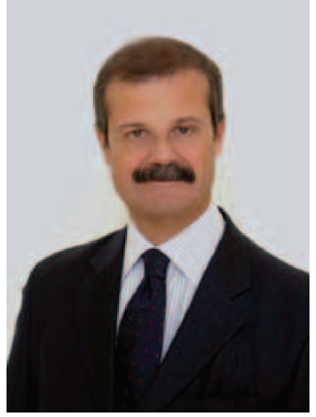
FINCANTIERI

SUMMARY

LETTER TO SHAREHOLDERS	4
PARENT COMPANY DIRECTORS AND OFFICERS	9
THE FINCANTIERI GROUP	13
Our vision	14
Our mission	15
Who we are	16
Group overview	18
FINCANTIERI GROUP REPORT ON OPERATIONS	25
Highlights	26
Overview	27
Key financials	33
Group performance	34
Operational review by segment	45
Core markets	52
Research and innovation	56
Our people	62
Commitment to health and safety	68
Environmental policy	72
Data and information protection	73
Enterprise risk management	75
Corporate governance	88
Other information	89
Alternative performance measures	98
Reconciliation of parent company profit/(loss) for the year and equity with the consolidated figures	99
Reconciliation of the reclassified financial statements used in the report on operations with the mandatory IFRS statements	100
FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS	103
Contents	105
Consolidated statement of financial position	106
Consolidated statement of comprehensive income	107
Consolidated statement of changes equity	108
Consolidated statement of cash flows	109
Notes to the Consolidated Financial Statements	111
Companies included in the scope of consolidation	222
Management representation on the consolidated financial statements	228
Report by the independent auditors	230
GLOSSARY	239



Giampiero Massolo

CHAIRMAN FINCANTIERI

To our Shareholders,

2019 was a two-speed year for the world shipbuilding industry. On the one hand, the demand for cruise ships remained high, although more focused on medium and small ships, and on the other hand the market for all other types of merchant vessels was once again marked by stagnant demand.
All this has led to the proliferation throughout the world, especially in the Far East, of initiatives to consolidate and streamline the production base, with the aim of reducing excess capacity and encouraging the emergence of poles of excellence.
Orders for cruise ships with a gross tonnage above 10,000 totalled 25 vessels, including 20 ships of less than 70,000 gross tonnage, a trend reflecting the unavailability of production slots for large ships and the consequent offer of deliveries too far in the future.
Once again, the global order book for cruise ships in December 2019 reached almost 100 ships with deliveries extending to 2027.
This includes orders received from historic customers for 13 cruise ships for 6 different brands, worth a total of over euro 6 billion.
This scenario was supported by growth in the segment that exceeded expectations in terms of passenger numbers, confirming all the demand drivers such as the growing interest in cruises within the tourist market, the entry of new customers or investors willing to attract new customer segments and the need to replace ships built in the early 1990s.
However, in the first months of this year, the Coronavirus epidemic abruptly interrupted growth in the tourism sector and the world economy in general, posing major questions about the extent of its effects in the immediate future, in relation to the duration of the lockdown, and how long these effects will last. The health crisis has certainly highlighted the vulnerability of the world social and economic system, heightened by globalization which is the connective tissue, in both a positive and negative sense, of our era.
With regard to the naval vessels business area, the subsidiary Marinette Marine Corporation, in addition to winning a contract for the construction of the sixteenth vessel in the “Freedom” class of the Littoral Combat Ship (LCS 31) program for the US Navy, has been involved as the shipbuilder of four Multi-Mission Surface Combatants worth approximately $1.3 billion under the Foreign Military Sales program between the United States and Saudi Arabia. In just ten years, the Group’s US shipyards have delivered ten of the LCS program ships and are building a further six vessels, making them the US Navy’s partner of choice. This is undoubtedly an important reference and will support the current bid for the new FFG (X) class frigates for the US Navy.
Fincantieri also signed a contract with Chantiers de l’Atlantique as part of the French Navy’s Flotlog program for the construction of bow sections of the 4 LSS based on the design of the “Vulcan” ship, built by Fincantieri for the Italian Navy.
Still in the naval vessel business, the full operation of the 50-50 joint venture between Fincantieri and Naval Group is an important milestone in the consolidation of the European

shipbuilding industry. The two groups will be able to submit bids for binational programs and for export, as well as generating synergies in the areas of procurement and research and innovation, bringing into play common structures, testing instruments and skills networks.
As far as the Offshore and Specialized Vessels segment is concerned, 2019 was once again characterized by an almost total absence of orders. The Coronavirus epidemic raises further questions about the timing of any recovery in this sector in the face of a dramatic fall in oil prices.
There is no doubt that the emergency situation we are experiencing makes it difficult to read the future, but Fincantieri is a large, solid and strategic company with important skills that it is able to make available for the reconstruction of the country.
The company has successfully overcome other crises in the past and has the right requirements and spirit to emerge strengthened from this momentous challenge.
A heartfelt vote of thanks is now due to all our workers, our suppliers and the institutions, in the conviction that our recovery will be based on teamwork, requiring sacrifices but also yielding great results.

Giampiero Massolo

CHAIRMAN FINCANTIERI

Giuseppe Bono

FINCANTIERI CHIEF EXECUTIVE OFFICER

To our Shareholders

2019 was a busy year for Fincantieri, a year of challenges but also of satisfaction, with initiatives designed to further strengthen and energize the Company; future years will be even more challenging, following the health and economic emergency triggered by the Coronavirus.
The epidemic, which is putting a severe strain on the country, has seen Fincantieri take prompt action to counter the emergency and safeguard the health and well-being of its people, suspending production activities from 16 March 2020.
The production shutdown was also accompanied by intense activity to ensure a safe start-up once the crisis is over and to deal with a profoundly altered economic environment.
The priority has been to secure the huge order backlog acquired, which may however, given the lengthy cycles involved, provide stronger guarantees in terms of our ability to weather the storm.
In line with this principle, the utmost importance has been given to relations with customers and strategic partners in order to search for shared solutions to maintain orders for cruise ships, one of the sectors hardest hit by the crisis. Inevitably, the need to remodel production plans has emerged, taking into account the needs of cruise lines and the state of our supplier network in terms of availability of resources and materials.
The objective pursued is to minimize the impact of the possible slowdown in activity and achieve a "new normal" in the interest of all: Fincantieri and its suppliers, but also its customers.
Inevitably, there will be an impact on operating performance in 2020. However, as long as the situation can be resolved within a reasonable timeframe, the Group will be able to cope with the impact, given its diversification and its solid financial and capital structure.
With regard to operating results, FINCANTIERI S.p.A. recorded an excellent performance in 2019, while the Group's consolidated results were affected by the negative performance of the subsidiary VARD. It only became possible after the delisting at the end of 2018 to implement a radical restructuring and refocusing of the latter's operating activities in order to avoid a repeat of the same problems in the future.
In terms of strategic choices, the project to consolidate the European shipbuilding industry has taken a significant step forward thanks to Naviris, the joint venture between Fincantieri and Naval Group, which has become fully operational. This industrial alliance, which can count on the support of the Italian and French governments, paves the way for a strengthening of naval cooperation between the two groups to create a more efficient and competitive European marine engineering industry, maintaining its leadership in terms of product performance and technological innovation.
Within the framework of cooperation between Italy and France, there is also the share purchase agreement for the acquisition of 50% of the capital of Chantiers de l'Atlantique (formerly STX France). Interaction with the Antitrust Authorities on the acquisition of Chantiers de l'Atlantique continued throughout 2019, but on 16 March 2020 the European Commission suspended the procedure.

As part of the strategy to strengthen the focus on high-tech activities, areas of technological innovation have been identified that are considered to have the greatest impact on the production system and products. This initiative led to the creation of a new hub i.e. a centre of excellence in electronic and software systems and, at the same time, the acquisition of a majority stake in Insis S.p.A., a company with expertise in areas such as optronics, telecommunications, information technology and cybersecurity.
Inspired by a long-term strategic vision that goes beyond business management and makes it possible to combine the interests of the Group and its main stakeholders with those of the country, Fincantieri has entered the large-scale infrastructure sector, an area in which Italy once excelled.
The Company, accustomed to dealing with complex and high value projects, has made available its great organizational capacity and multidisciplinary skills, demonstrating its capacity to deal with non-naval infrastructure projects and emergency situations, such as the construction of the new bridge in Genoa.
The bridge over the Polcevera river is a highly complex project that Fincantieri is carrying out in record time and despite the new difficulties created by the health emergency.
Fincantieri, a rare beacon and a cornerstone of the Italian industrial framework, has a moral duty to play a leading role, alongside the Government, in supporting the recovery of the country, which has been hard hit by the Coronavirus epidemic, helping to drive reconstruction by protecting jobs and national production capacity. The constructive interaction with CDP and ENI, aimed at generating a positive socioeconomic and environmental impact throughout Italy, will play a valuable role in this.
In the past the company has been put to the test many times and has successfully overcome other crises caused by the market, demonstrating cohesive and proven management, with the ability to manage difficulties and build for the future. The scale of this new shock to the social and economic fabric is such that only those who have the strength to resist and propose solutions for the road ahead will emerge stronger, taking a leading role.
The return to work will be an important testing ground for the great challenges that await us, with the awareness that each of us, with our commitment and the necessary sacrifices, can make a difference.
For this enormous responsibility and for the contribution that each of us will be called on to make, I want to thank our workers and the employees of our vast network of suppliers,
in the conviction that our resilience and desire to rebuild will get the Company and the country back on track.

Giuseppe Bono

FINCANTIERI CHIEF EXECUTIVE OFFICER

PARENT COMPANY DIRECTORS AND OFFICERS

PARENT COMPANY DIRECTORS AND OFFICERS

Board of Directors
(2019-2021)

Chairman
Giampiero Massolo

Chief Executive Officer
Giuseppe Bono

Councilors
Barbara Alemanni
Massimiliano Cesare
Luca Errico
Paola Muratorio
Elisabetta Oliveri
Fabrizio Palermo
Federica Santini
Federica Seganti

Secretary
Giuseppe Cannizzaro

Board of statutory auditors
(2017-2019)

Chairman
Gianluca Ferrero

Standing Auditor
Fioranna Vittoria Negri
Roberto Spada

Alternate Auditor
Alberto De Nigro
Flavia Daunia Minutillo
Massimiliano Nova

Manager responsible for preparing financial reports

Felice Bonavolontà

Supervisory body
Leg. Decree 231/01
(2018-2020)

Chairman
Guido Zanardi

Member
Stefano Dentilli
Giorgio Pani

Independent auditors
(2013-2019)*

PricewaterhouseCoopers S.p.A.

*The Shareholders' Meeting of 15 November 2019 appointed the independent auditors Deloitte & Touche S.p.A. for the financial years 2020-2028, following the mutually agreed termination of the appointment of PricewaterhouseCoopers S.p.A..

Information regarding the composition and functions of the Board Committees (the Control and Risk Committee, which is also serving on an interim basis as the committee responsible for related party transactions, the Remuneration Committee, the Nomination Committee and the Sustainability Committee) is provided in the "Ethics and Governance" section of the Fincantieri website at www.fincantieri.com..

Disclaimer

Forecast data and information must be regarded as forward-looking statements and therefore, not being based on simple historical facts, contain, by their nature, an element of risk and uncertainty because they also depend on the occurrence of future events and developments outside the Company's control. Actual results could therefore be materially different from those expressed in forward-looking statements. Forward-looking statements refer to the information available at the date of their publication; FINCANTIERI S.p.A undertakes no obligation to revise, update or correct its forward-looking statements after such date, other than in the circumstances strictly required by applicable regulations. The forward-looking statements provided do not constitute and shall not be considered by users of the financial statements as advice for legal, accounting, tax or investment purposes nor is it the intention for such statements to create any type of reliance and/or induce such users to invest in the Company.

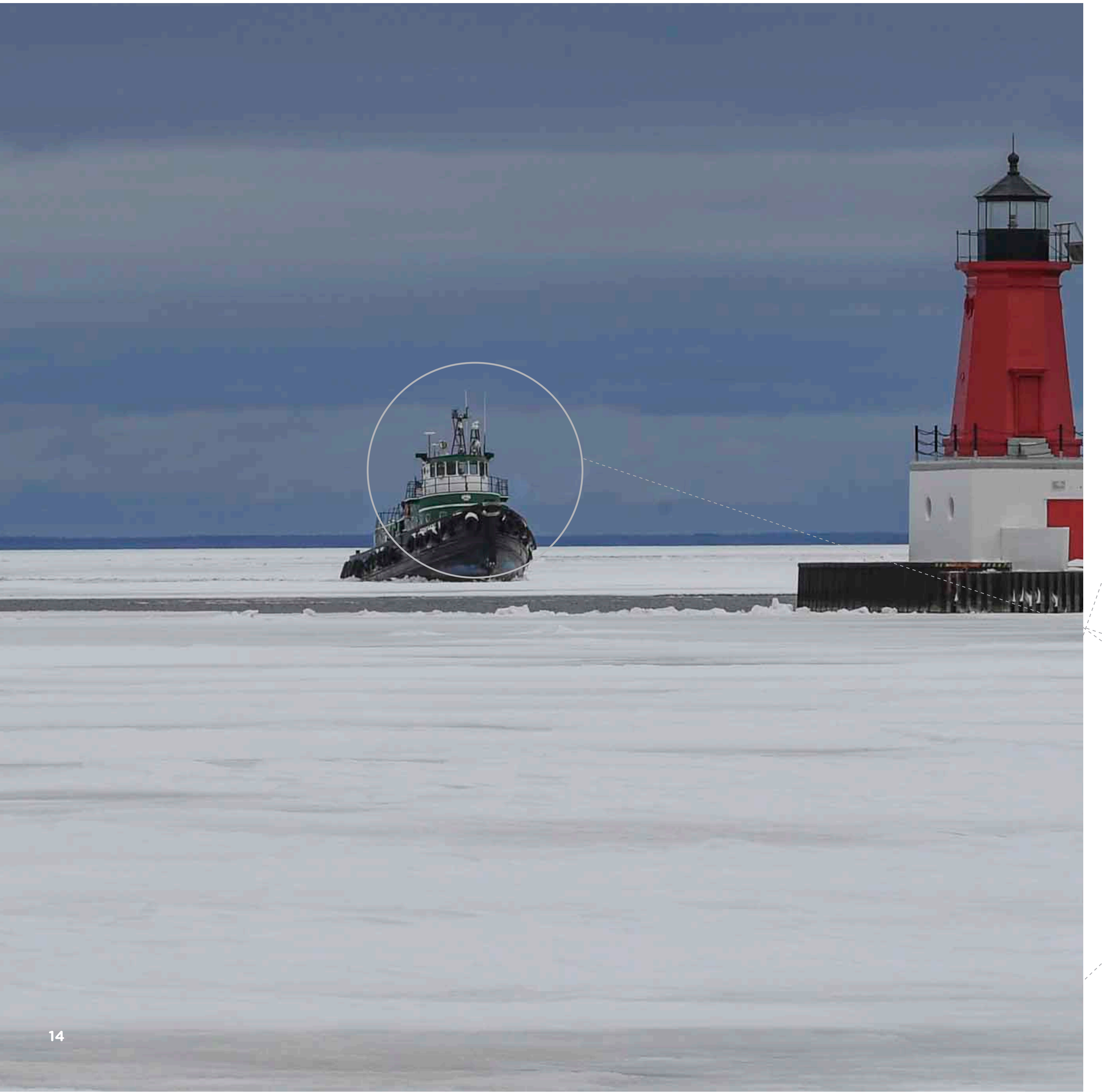
THE FINCANTIERI GROUP

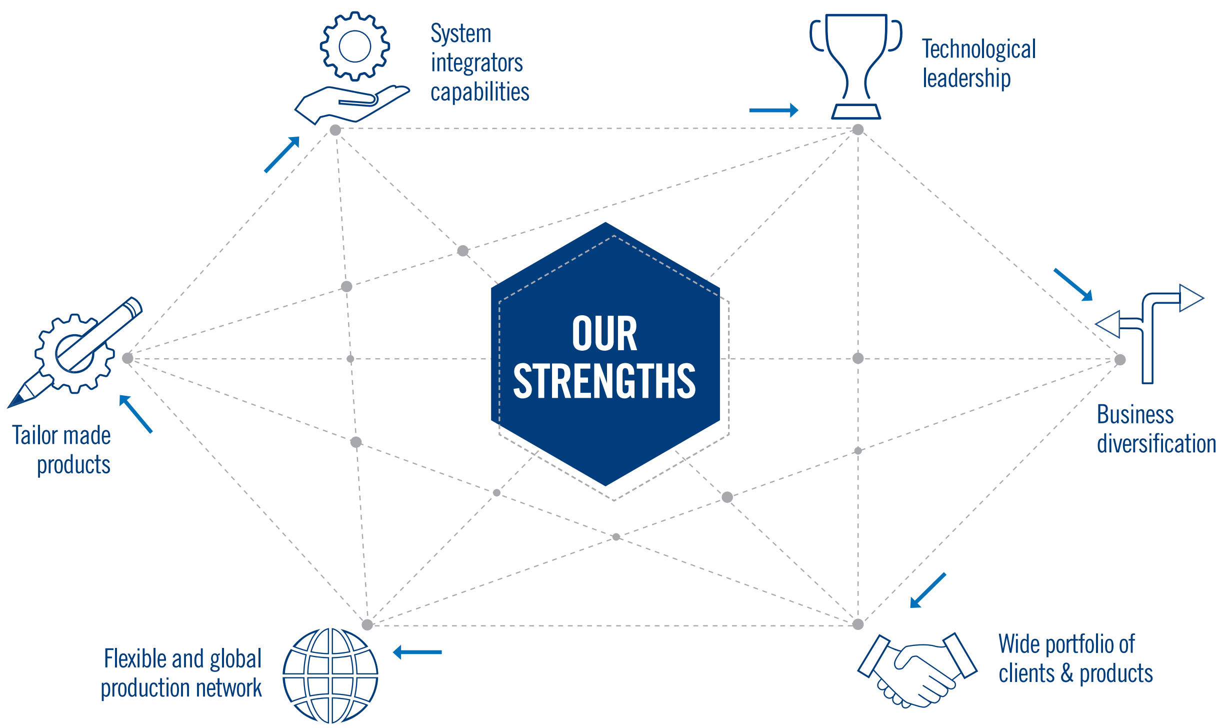
- OUR VISION
- OUR MISSION
- WHO WE ARE
- GROUP OVERVIEW

OUR VISION

We aspire to be world leaders in the industrial sectors where we operate, becoming a reference point for our customers, always selecting high value-added sectors and standing out for our diversification and innovation.

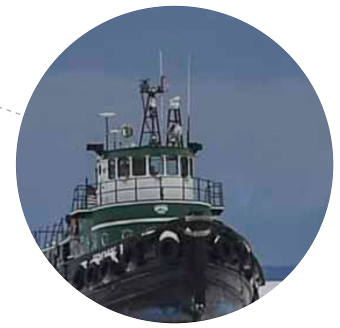
The Sea Ahead: all those who work at Fincantieri Group steer for this course: talented men and women working responsibly to help develop our idea of a future increasingly characterized by innovation, performance and sustainability.





OUR MISSION

Technological development and continuous improvement are the goals that we have set for ourselves, and we are determined to pursue them.
Our every action, project, initiative or decision is based on strict observance of the law, labour protection and protection of the environment, safeguarding the interests of our shareholders, employees, clients, trade and financial partners, local communities and groups, creating value for every stakeholder.



WHO WE ARE

Fincantieri is one of the world's largest shipbuilding groups and number one for diversification and innovation. It is leader in cruise ship design and construction and a reference player in all high-tech shipbuilding industry sectors, from naval to offshore and specialized vessels, from high-complexity ferries to mega yachts, as well as in ship repairs and conversions, production of systems and components in the mechanical and electrical sectors, ship interior solutions, electronic systems and software, infrastructure and maritime works and after-sales support services.

FACTS AND FIGURES

With over 230 years of history and more than 7,000 vessels built, Fincantieri has always kept its management offices, as well as all its distinctive engineering and production skills, in Italy. With over 8,900 employees and a supplier network that employs nearly 50,000 people in Italy alone, Fincantieri has enhanced a fragmented production capacity over several shipyards into a strength, acquiring the widest portfolio of clients and products in the cruise business. To hold its own in relation to competition and assert itself at global level, Fincantieri has broadened its product portfolio becoming world leader in the sectors in which it operates.
The Group now has 20 shipyards in four continents, nearly 20,000 employees, and is the leading Western shipbuilder; its clients include the world's biggest cruise operators and the Italian and the US Navy as well as numerous foreign navies. Fincantieri is also a partner of some of the main European defence companies within supranational programs.
Fincantieri's business is widely diversified by end markets, geographical exposure and by client base, with revenue mainly generated from cruise ship, naval vessel and Offshore and Specialized Vessel construction. Compared with less diversified players, such diversification allows it to mitigate the effects of any fluctuations in demand on the end markets served.

FINCANTIERI GROUP

GROUP OVERVIEW

The Group operates through the following three segments:

• Shipbuilding: encompassing the business areas cruise ships and expedition cruise vessels, naval vessels, ferries and mega yachts;
• Offshore and Specialized Vessels: encompassing the design and construction of high-end offshore support vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as innovative products in the field of drillships and semi-submersible drilling rigs;
• Equipment, Systems and Services: encompassing the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, integrated systems and ship accommodation, and the provision of repair and conversion services, logistical support and after-sales services, and supply of solutions for electronic systems and software and for infrastructure and maritime works.

A new organizational structure for the VARD Group was defined in 2018, with a focus on two business units, the Offshore and Specialized Vessels business unit and the Cruise business unit, and full organizational integration with FINCANTIERI S.p.A..
The economic results of VARD's Cruise business unit, coordinated directly by Fincantieri's Merchant Shipping Division, have been allocated to the Shipbuilding operating segment.
Project management for the construction of offshore vessels, specialized ships and vessels for the Norwegian Coast Guard have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore and Specialized Vessels.
The structure of the Fincantieri Group and overview of the companies included in its consolidation will now be presented.

SEGMENTS	SHIPBUILDING				OFFSHORE AND SPECIALIZED VESSELS	EQUIPMENT, SYSTEMS AND SERVICES				OTHER
BUSINESS AREAS										
	Cruise Ships	**Ferries**	**Naval Vessels**	**Mega-Yacht**	**Offshore and Specialized Vessels**	**Systems and Components**	**Service**	**Electronics, Systems and Software**	**Infrastructure**	**Corporate functions**
PRODUCT PORTFOLIO	Contemporay Premium Upper Premium Luxury Exploration/Niche Expedition cruise vessels	Cruise ferry Ro-Pax Dual fuel ferries	Aircraft carriers Destroyers Frigates Corvettes Patrol vessels Amphibious ships Logistic support ships Multirole and research vessels Special vessels Submarines	Mega-yacht > 70 m	Drilling units Offshore support vessels (AHTS-PSV-OSCV) Special vessels Fisheries/Aquaculture Wind offshore	Cabins Public areas Catering Electrical, electronic and electromechanical integrated systems Entertainment systems Stabilization, propulsion, positioning and power generation systems Steam turbines	Ship repairs Refitting Refurbishment Conversions Product lifecycle management • Integrated logistic support • In-service support • Refitting • Conversions Training and assistance	Design and integration of complex systems (system integration) with a focus on automation Cyber security	Design, construction and assembly of steel structures on large projects such as: • Bridges • Viaducts • Airports • Ports • Maritime/hydraulic works • Large commercial and industrial buildings	Strategic Direction and Coordination • Governance, Legal and Corporate Affairs • Accounting and Finance • Human Resources • Information Systems • Research & Innovation • Purchasing
MAIN SUBSIDIARIES / ASSOCIATES / JOINT VENTURES	FINCANTIERI S.p.A. • Monfalcone • Marghera • Sestri Ponente • Cantiere Integrato Navale Riva Trigoso e Muggiano • Ancona • Castellammare di Stabia • Palermo VARD Group AS • Langsten • Søviknes Vard Tulcea SA • Tulcea Vard Braila SA • Braila Vard Accommodations AS Cetena S.p.A.		Fincantieri Marine Group Holdings Inc. FMG LLC • Sturgeon Bay Marinette Marine Corporation LLC • Marinette ACE Marine LLC • Green Bay Fincantieri India Pte Ltd. Fincantieri do Brasil Partecipacões SA Fincantieri USA Inc. Fincantieri Australia PTY Ltd. Fincantieri (Shanghai) Trading Co. Ltd. Etihad Ship Building LLC. Orizzonte Sistemi Navali S.p.A. CSSC - Fincantieri Cruise Industry Development Ltd.		FINCANTIERI S.p.A. Fincantieri Oil&Gas S.p.A. VARD Group AS • Aukra • Brattvaag • Brevik Vard Promar SA • Suape Vard Vung Tau Ltd. • Vung Tau Vard Electro AS Vard Design AS Vard Piping AS Vard Marine Inc. Seaonics AS	FINCANTIERI S.p.A. • Riva Trigoso Seaf S.p.A. Isotta Fraschini Motori S.p.A. Fincantieri SI S.p.A. Marine Interiors Cabins S.p.A. Marine Interiors S.p.A. Seanergy a Marine Interiors company S.r.l. Luxury Interiors Factory S.r.l. Fincantieri Sweden AB Unifer Navale S.r.l.	FINCANTIERI S.p.A. • Arsenale Triestino San Marco • Bacino di Genova FMSNA Inc. Fincantieri Services Middle East LLC Fincantieri Services USA LLC	Seastema S.p.A. Issel Nord S.r.l. Gruppo Insis	Fincantieri Infrastructure S.p.A. Fincantieri Infrastructure Opere Marittime S.p.A. Pergenova S.c.p.a. Fincantieri Dragaggi Ecologici S.p.A.	FINCANTIERI S.p.A.

THE FINCANTIERI PLANET

SHIPYARDS AND DOCKS

EUROPE

ITALY
Trieste
Monfalcone
Marghera
Sestri Ponente
Genova
Riva Trigoso - Muggiano
Ancona
Castellammare di Stabia
Palermo

NORWAY
Aukra
Brattvaag
Brevik
Langsten
Søviknes

ROMANIA
Braila
Tulcea

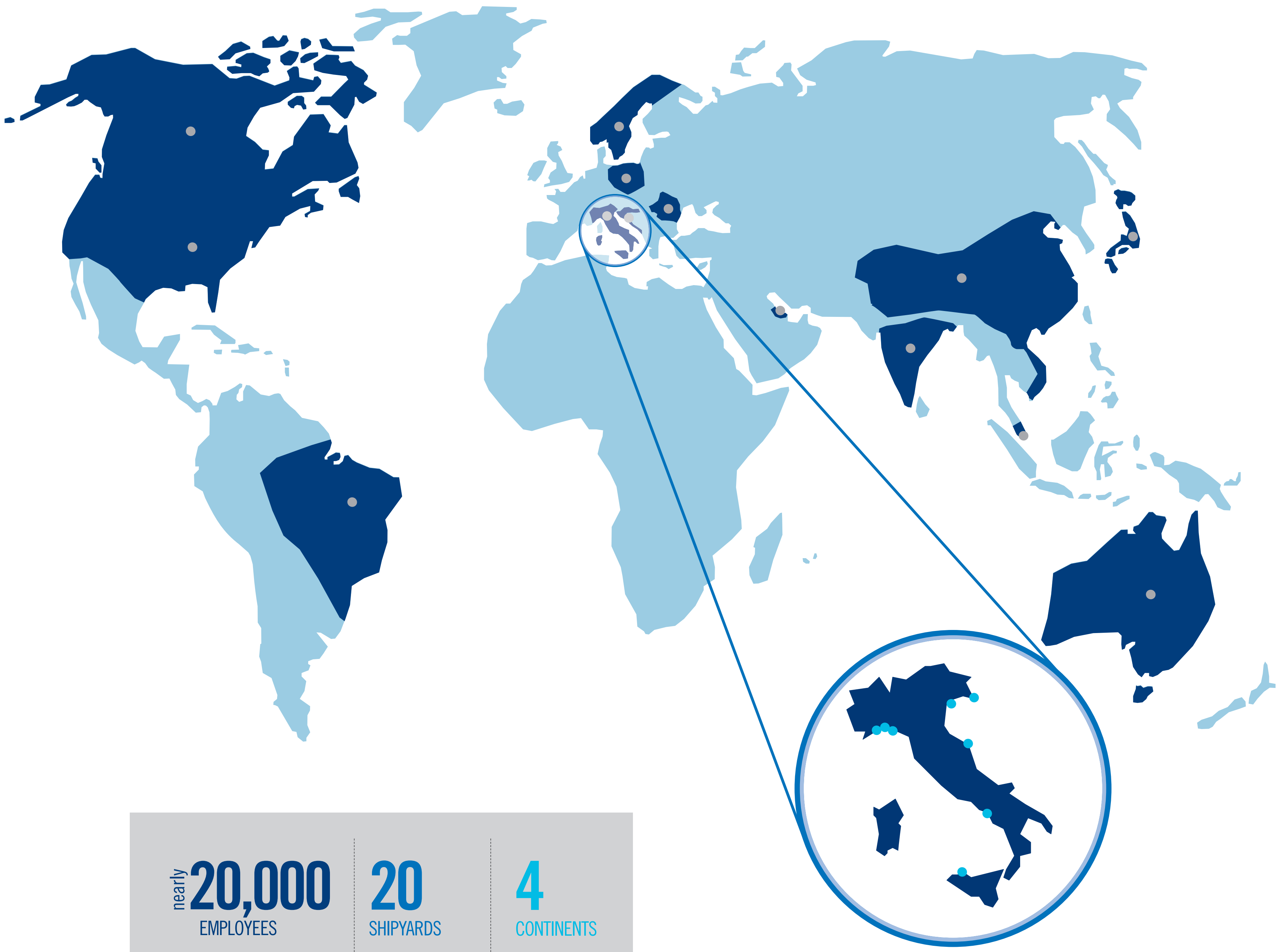
ASIA

VIETNAM
Vung Tau

AMERICAS

USA
Marinette
Sturgeon Bay
Green Bay

BRAZIL
Suape



nearly **20,000** EMPLOYEES | **20** SHIPYARDS | **4** CONTINENTS

MAIN SUBSIDIARIES

EUROPE

ITALY
FINCANTIERI S.p.A.
Cetena
Seastema
Isotta Fraschini Motori
Fincantieri Oil&Gas
Marine Interiors
Marine Interiors Cabins
Insis
Seanergy A Marine Interiors Company
Fincantieri SI
Fincantieri Infrastructure
Fincantieri Infrastructure Opere Marittime
Issel Nord

NORWAY
VARD Group
Vard Design
Vard Piping
Vard Electro
Vard Accomodation
Seaonics

ROMANIA
Vard Tulcea
Vard Braila

CROATIA
Vard Design Liburna

SWEDEN
Fincantieri Sweden

POLAND
Seaonics Polska

ASIA

CHINA
Fincantieri (Shanghai) Trading

INDIA
Fincantieri India
Vard Electrical Installation and Engineering (India)

QATAR
Fincantieri Services Middle East

SINGAPORE
Vard Holdings
Vard Shipholdings Singapore

JAPAN
FMSNA YK

VIETNAM
Vard Vung Tau

AMERICAS

USA
Fincantieri Marine Group
Fincantieri Marine Systems North America
Fincantieri Services USA
Fincantieri USA

CANADA
Vard Marine

BRAZIL
Vard Promar

OCEANIA

AUSTRALIA
Fincantieri Australia

FINCANTIERI GROUP REPORT ON OPERATIONS

- HIGHLIGHTS
- OVERVIEW
- KEY FINANCIALS
- GROUP PERFORMANCE
- OPERATIONAL REVIEW BY SEGMENT
- CORE MARKETS
- RESEARCH AND INNOVATION
- OUR PEOPLE
- COMMITMENT TO HEALTH AND SAFETY
- ENVIRONMENTAL POLICY
- DATA AND INFORMATION PROTECTION
- ENTERPRISE RISK MANAGEMENT
- CORPORATE GOVERNANCE
- OTHER INFORMATION
- RECONCILIATION OF PARENT COMPANYPROFIT (LOSS) FOR THE YEAR AND EQUITY WITH THE CONSOLIDATED FIGURES
- RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS USED IN THE REPORT ON OPERATIONS WITH THE MANDATORY IFRS STATEMENTS

HIGHLIGHTS

- **RECORD REVENUES** OF EURO 5.8 BILLION
- **ORDER INTAKE CONSIDERABLY HIGHER THAN REVENUES FOR OVER 5 YEARS** (EURO 8.7 BILLION)
  - **28 VESSELS** OF WHICH **13 CRUISE SHIPS** FOR SIX DIFFERENT BRANDS AND **5 NAVAL VESSELS** IN THE UNITED STATES
  - **TOTAL BACKLOG**[1] FOR 109 SHIPS AND EURO **32.7** BILLION, EQUIVALENT TO NEARLY 6 TIMES REVENUES
  - **BACKLOG** OF EURO **28.6** BILLION WITH 98 VESSELS TO DELIVERY UP TO 2027
  - **SOFT BACKLOG** OF AROUND EURO **4.1** BILLION
- **DELIVERED 26 VESSELS** FROM 12 DIFFERENT SHIPYARDS
- **MORE THAN 550 DIRECT JOBS CREATED IN ITALY AND 2,650 IN THE SUPPLY CHAIN** WITH THE INCREASE IN WORKFORCE
- INCORPORATED **NAVIRIS, EQUAL JOINT VENTURE WITH NAVAL GROUP** AS PART OF THE CONSOLIDATION OF THE EUROPEAN SHIPBUILDING SECTOR
- ONGOING INTERACTIONS WITH THE ANTITRUST AUTHORITIES ON THE ACQUISITION OF **CHANTIERS DE L'ATLANTIQUE**
- CREATION OF A **POLE OF EXCELLENCE IN ELECTRONIC SYSTEMS AND SOFTWARE**, KEY AREAS FOR INNOVATION
- ACHIEVED **ALL THE 2019 TARGETS** ENVISAGED BY THE **SUSTAINABILITY PLAN,** IN PARTICULAR IN SUPPLY CHAIN MANAGEMENT, SOCIAL ACTIVITIES, HUMAN RIGHTS AND DIVERSITY

- **EXCELLENT RESULTS OF FINCANTIERI S.P.A.** (REVENUES OF EURO 4.3 BILLION, EBITDA OF EURO 489 MILLION, EBITDA MARGIN OF 11.3% AND PROFIT FOR THE YEAR OF EURO 151 MILLION, NET IMPAIRMENT OF THE INVESTMENT IN VARD FOR EURO 50 MILLION AND EXTRAORDINARY COSTS FOR ASBESTOS OF EURO 40 MILLION)
- **SIGNIFICANT NEGATIVE PERFORMANCE OF VARD** (FOR WHICH A RESTRUCTURING PLAN WAS IMPLEMENTED FOLLOWING ITS DELISTING AT THE END OF 2018) HAS PRODUCED THE FOLLOWING CONSOLIDATED GROUP RESULTS
  - **REVENUE AND INCOME**: EURO **5,849** MILLION (+8.0%)
  - **EBITDA** OF EURO **320** MILLION WITH AN **EBITDA MARGIN** OF **5.5%**
  - **ADJUSTED LOSS FOR THE PERIOD**[2] OF EURO **71** MILLION
  - **LOSS FOR THE PERIOD** OF EURO **148** MILLION AFTER EXTRAORDINARY COSTS FOR EURO 67 MILLION, NET OF TAX EXPENSES FOR EURO 73 MILLION AND THE LOSS FROM DISCONTINUED OPERATIONS OF EURO 24 MILLION
- **NET DEBT**[3] OF EURO **736** MILLION WHICH REFLECTS A FINANCIAL STRUCTURE THAT IS CONSISTENT WITH THE GROWTH IN CRUISE VOLUMES AND THE RELATED DELIVERY SCHEDULE

[1] Sum of backlog and soft backlog.
[2] Profit/(loss) for the period before extraordinary and non-recurring income and expenses.
[3] This figure does not include construction loans.

OVERVIEW

After the end of the financial year, the **COVID-19 pandemic emergency** occurred at a global level, resulting in strong pressure on national health systems and the progressive enactment by government authorities of a series of measures aimed at containing the risk of further expansion of the virus. These measures are having significant effects on the social and working lives of individuals and on the world economy.
The Group reacted promptly to this pandemic, activating initiatives to pursue its priority objectives of protecting the health of its employees and those of the companies in the industry; in fact, the Group's priority at this time is to implement all the necessary initiatives to safeguard the health and well-being of its people, who are its most important asset. In this context, Fincantieri has currently **suspended production activities** at Italian production sites as of 16 March 2020. The Group is in any case actively involved in daily monitoring of the evolution of the spread of the virus, in order to ensure a proactive management of its potential effects.
At the same time, as far as production activities are concerned, despite the mitigating actions already promptly implemented by the Company, including the purchase of medical devices for the regular performance of the Company's operations, the COVID-19 emergency is having significant **effects on the regular and ordinary performance of the Group's activities in 2020**.
At a global level, one of the sectors most affected by the current emergency situation is tourism, particularly the cruise market where shipowners were among the first to be forced to stop their operations. In this context, the Group's priority and efforts are focused on care of customers and strategic partners in order to **safeguard the order backlog acquired**, a fundamental element not only for Fincantieri and the system of the related network, but for the recovery of the national economy. It should be noted that the current health emergency is a cause of force majeure within the scope of the contracts, allowing the Group to modify the production schedules and delivery dates of the ships.
Should the situation be resolved within a reasonable timeframe, Fincantieri believes that the **Group's equity and economic structure** is able to cope with the effects of the emergency.
In view of the uncertainty regarding the impact on public health and, consequently, on the productive, economic and social fabric of the country, as soon as the development of the emergency allows a clearer analysis of the possible impact, the Company will finalize the new 2020-2024 Business Plan and promptly communicate it to the market.

To date, the Group has confirmed its position as **undisputed leader in the high value-added areas** of shipbuilding and, thanks to its **growth strategy based on diversification and innovation**, also in other industrial sectors.
Once again, management has demonstrated that it has a **strategic vision** that goes beyond mere company management and that it is able to combine the interests of the Group, and its main stakeholders, with those of the country and regions in which it has its roots. Proof of this lies in Fincantieri's entry into the **infrastructure sector** where, by putting its excellence at the service of the country and combining the best Italian expertise in a highly complex project, the Group has carried on the reconstruction of the bridge over the Polcevera River in Genoa. In just six months, the subsidiary

Fincantieri Infrastructure has completed and put in place twelve pillars, with the intention of completing the reconstruction in less than a year.

The Group's strategy of growth, diversification and innovation is not limited to using its skills to enter new markets such as infrastructure, but also aims to further increase know-how to the benefit of the core sectors in which the Group historically operates. As part of this strategy to strengthen its competence in **high-technology activities**, Fincantieri purchased a majority share of the capital of **Insis S.p.A.**, a company operating in the information technology and electronics sectors. Insis - a solution provider in the defence and civil sectors - has expertise in developing products and services in areas such as optronics, telecommunications, information technology and cyber security. This acquisition is part of the development plan for a pole of excellence in electronic systems and software, which are key sectors for innovation, and is aimed at enabling the Group to increase its skills by creating internal synergies and strengthening the work carried out over the years to develop new technologies and applications, including in defence and industrial electronics.

In the last five years the Group has demonstrated extraordinary commercial strength by recording an **order intake that far exceeds revenues**, more than doubling the total backlog from euro 14.8 billion in 2014 to euro 32.7 billion in 2019.

The Fincantieri Group recorded significant values yet again in 2019 in terms of **new orders** (euro 8.7 billion) for 28 new ships, successfully delivered 26 naval vessels in 12 different shipyards, and can count on a **total backlog** of euro 32.7 billion for 109 vessels, consisting of a backlog of around euro 28.6 billion (with 98 vessels on delivery until 2027) and a soft backlog of euro 4.1 billion.

The increasing total backlog, equal to almost 6 times the revenues, **confirms the Group's ability to transform soft backlog into confirmed orders** and allows it to maintain **exceptional visibility** in the next few years, supporting the **growth of the Group's activities and prospective revenues**.

The 3% growth in the headcount from 19,274 employees at 31 December 2018 (8,662 in Italy) to 19,823 employees at 31 December 2019 (9,334 in Italy), accompanied by a significant increase in the involvement of the supplier network linked to the Group's production structure, is also mainly due to the adjustment of the workforce to the current order backlog relating to the Cruise business.

The direct placement of more than 550 resources in Italy alone, driving the creation of 2,650 jobs in the supplier network, against a 6% growth in the business volume, highlights the Group's unique ability to **create value for the country in an extremely complex sector**. With an estimated employment multiplier of 5.9 and an economic value multiplier of 4.5, the Group creates a flywheel effect for small-medium enterprises while representing a boost to innovation - an element of fundamental importance for guaranteeing the future of the Italian industrial sector. This is thanks not only to the strategic alliances with a long-term perspective, but also to the ability to provide highly technological and customized solutions, using the experience gained to seize opportunities in new sectors such as infrastructure and control and automation systems and cyber security.

In terms of economic performance, **at the level of Fincantieri S.p.A., 2019 confirmed the excellent results of 2018**, with revenues of euro 4.3 billion (+8.8%), EBITDA of euro 489 million, an EBITDA margin of 11.3% and a Profit for the year of euro 151 million, net of impairment of the investment in VARD

for euro 50 billion and extraordinary costs related to asbestos litigation of euro 40 million. However, the **Group's economic results are affected by the negative performance of the subsidiary Vard**. During 2019, after the delisting that took place in December 2018, it was possible to start the process of restructuring and reviewing the operating activities of the subsidiary Vard, aimed at identifying those actions necessary in order to improve management performance. This process, which began with a radical change of management now mostly driven by Fincantieri, involves the subsidiary's full integration into the Group by aligning its strategy and production at all its operations with best practices within Fincantieri. The reorganization has led to a downsizing of the production footprint, with the subsidiary's exit from the small vessel construction business for the fishery sector and support vessels to fishery farms and the divesting of the Norwegian shipyards of Aukra and Brevik. Moreover, the in-depth review, announced during the year, of industrial management methods (design, production and project management) and the economic planning of Vard contracts, both in the Cruise and Offshore and Specialized Vessels sectors, was completed, resulting in an estimate of higher final project costs with a significant impact on results for the year. **At Group level, 2019** confirmed the growth trend in revenues with a record level of euro 5.8 billion (+8.0%) and recorded an EBITDA of euro 320 million with a margin of 5.5% achieved despite Vard's operating losses. These losses reduce the Adjusted Loss for the year to euro 71 million and the Group's Loss for the year to euro 148 million, with tax expenses of euro 73 million, Extraordinary and non-recurring expenses of euro 67 million and a loss from discontinued operations of euro 24 million.

Net debt is euro 736 million and reflects the Group's financial structure which is consistent with the increased volume and value of Cruise units in production and with the delivery schedule.

As part of its **industrial alliances**, the Group's strategic line has led to the establishment of an equal joint venture between Fincantieri and Naval Group called **Naviris**. This partnership, which is currently fully operational, realizes the content of the "Poseidon" project and paves the way to strengthening naval cooperation between the two groups to create a more efficient and competitive European marine engineering industry. This cooperation, which can count on the support of both the Italian and French governments, is key to the consolidation of the European shipbuilding sector, aimed at keeping European shipbuilding a world leader in product performance and technological innovation. Thanks to this agreement, the two groups will be able to submit bids for binational programs and for export, as well as generating synergies in the areas of procurement and research and development, permitting Fincantieri and Naval Group to bring into play common structures, testing instruments and skills networks. In the context of cooperation between Italy and France, 2018 also saw the signing of the share purchase agreement with the French government for the acquisition of 50% of the capital of STX France (now Chantiers de l'Atlantique). The operation, whose closing is still subject to certain conditions, including authorization by the Antitrust Authorities, also provides for the loan to Fincantieri of 1% of the share capital of Chantiers de l'Atlantique.

The Group's strategy has also found expression in the commercial sphere, with particular attention to the care of customers and strategic partners.

FINCANTIERI GROUP / REPORT ON OPERATIONS

This includes orders received from historic customers for **13 cruise ships for 6 different brands**, worth a total of over euro 6 billion. These are projects for new generation ships which will require the use of cutting edge technology developed in cooperation with the Group's historical customers such as Norwegian Cruise Line Holdings Ltd. (2 ships for the Oceania Cruises brand and 1 ultra luxury ship for the Regent Seven Seas Cruises brand), MSC Cruises (4 luxury cruise ships), Viking (2 ships under the March 2018 agreement), Carnival (2 ships for the Princess Cruises brand), and Ponant (2 luxury cruise ships). Each of these projects represents an important achievement for the Group: NCL becomes the most important customer in terms of backlog, MSC's order marks the shipowner's entry into the luxury segment which is showing strong growth potential, Viking confirms a genuine partnership relationship with Fincantieri totalling at 20 ships ordered including options, Carnival demonstrates the historic customer's investment in innovation with the order of the first LNG powered ships for the Princess Cruises brand, and Ponant places confidence in the technological capabilities of Vard with the eighth and ninth vessels ordered from the subsidiary since its entry into the expedition cruise sector.

With reference to the **naval vessels** business area, the subsidiary Marinette Marine Corporation, in addition to winning a contract for the construction of the sixteenth vessel of the "Freedom" class Littoral Combat Ship (LCS 31) for the US Navy, has been involved as manufacturer of four Multi-Mission Surface Combatants worth approximately $1.3 billion under the Foreign Military Sales programme between the United States and Saudi Arabia. In addition, the Group signed a contract with Chantiers de l'Atlantique as part of the French Navy's Flotlog programme for the construction of bow sections of the 4 LSS based on the "Vulcan" ship design built by Fincantieri for the Italian Navy. As regards relations with strategic partners, a Memorandum of Understanding (MoU) was signed in January 2020 with Qatari Ministry of Defence, aimed at strengthening the partnership with the country through the evaluation and study of new technologies and capabilities, which could lead to the future acquisition of new state-of-the-art vessels.

In the Offshore and Specialized Vessels sector, the reduced order intake is linked to the total absence of orders in the core sector. In this context, Vard's commercial strategy consists of diversification into high potential segments such as fishery (large complex vessels for fishing in particular) and aquaculture (specifically innovative semi-submersible platforms to be used as fishery farms), in which the subsidiary is building a track record. Given the negative operating performance during the year, the diversification strategy was adjusted by concentrating resources on fewer specific projects in order to reduce the risks associated with a particularly diversified and complex order book.

By aligning its sales force with its strategic focus on **new business development**, the Group has also recorded a high level of orders in the Equipment, Systems and Services sector. In particular, the Group started the construction of the bridge over the Polcevera river in Genoa in the first few months of the year, with the related orders for the supply and installation of the metal deck. As part of this contract, Fincantieri has launched a cooperation among the Group's companies involved in the integrated bridge monitoring, control and inspection system, confirming its ability to capitalize on its experience in order to seize opportunities in new operating segments. In addition, through its subsidiary Fincantieri SI, the Group has won a prestigious order for a series of supplies and installations of high-profile equipment as part of the International Thermonuclear Experimental Reactor (ITER), a project for the construction of an experimental nuclear fusion reactor recognized as one of the most ambitious renewable energy initiatives in the world.

From an **operational** viewpoint, 26 vessels were delivered during the year, including 8 cruise ships: one for Viking Cruises, three for Carnival Group brands (Costa Crociere, Carnival Cruise Line, Princess Cruises), two for Ponant and two for Hapag Lloyd. In early 2020, "Scarlet Lady" was delivered for the shipowner Virgin Voyages and "Seven Seas Splendor" for the Regent brand of the group Norwegian Cruise Line Holdings Ltd. 3 naval vessels were also delivered (two LCS units, "Billings" and "USS Indianapolis" and one vessel from the FREMM program ("Antonio Marceglia") and two vessels from the Italian Navy fleet renewal programme were launched (the "Trieste" Landing Helicopter Dock and the first Multipurpose Offshore Patrol Vessel "Paolo Thaon di Revel" as well as the ninth unit from the FREMM program "Spartaco Schergat". In addition, in the first months of 2020, the tenth LCS unit "St. Louis" was delivered at the American shipyard in Marinette and the tenth unit of the FREMM program "Emilio Bianchi" was launched. Finally, 15 vessels were delivered during the year from shipyards in Norway and Vietnam, belonging to the Offshore and Specialized Vessels segment.

With regard to the **economic results of the various sectors**, it should be noted that the **Shipbuilding** segment closed 2019 with increased revenues (+8.8%) and a margin of 7.4%. This performance reflects the profitability of activities related to military programs and the excellent results of Fincantieri S.p.A.'s cruise operations, which saw a structural increase in margins, benefiting both from the positive momentum of the market and the strategic choices linked to the efficiency of production and derisking of the order book. However, margins in the segment are considerably affected by the significant operating losses of some projects within Vard's Cruise business unit.

The **Offshore and Specialized Vessels** operating segment recorded a significant reduction in revenues (-29.4%) and was affected by the evident slowdown in production volumes linked to the almost total absence of orders in the core sector combined with the operating difficulties typical of an extremely diversified order book. The complexity of the production process linked to the management of the order book, which is challenging in terms of number, diversity of projects and types of ships under construction at the same time, as well as their high innovative content, has led to the need to revise the cost estimates at the end of the orders, resulting in negative margins for the segment.

The **Equipment, Systems and Services** operating segment confirmed its growth trend, recording a significant increase in revenues (+38.1%) linked to the development of a significant order backlog and maintaining a good margin of 10.0%. There was a greater contribution from infrastructure projects and conversion and refurbishment activities, with particular reference to the supply and installation of the steel deck for the construction of the Polcevera River Bridge in Genoa.

In 2019, the Group's commitment to combining business growth with the principles of social and environmental sustainability continued. In particular, within the area of research and development, Fincantieri signed two important agreements: the first with Cassa Depositi e Prestiti and Snam for the development of

FINCANTIERI GROUP / REPORT ON OPERATIONS

sustainable technologies applied to maritime transportation, and the second with Cassa Depositi e Prestiti, Terna and Eni for the development and implementation of wave power generation plants on an industrial scale.
The Group continues to actively integrate **social and environmental sustainability** principles into its strategic vision. During 2019, important **objectives of the Sustainability Plan** were achieved, including the drafting of the Suppliers' Code of Ethics, which is proposed as a basis for the creation of a responsible and sustainable supply chain, and the drafting of policies for Communities and Territories and Human Rights, which enshrine the Group's commitment to the management of social activities and human rights and diversity. With specific regard to respect for human rights, health, safety and the environment, 35 audits of Fincantieri S.p.A.'s suppliers were carried out during the year. With a view to contributing to a circular, low-carbon economy, an eco-design system has been defined to promote the development of eco-sustainable ships. In 2019, a further step was taken by joining the United Nations Global Compact, the world's largest business sustainability initiative, positioning Fincantieri as one of the first shipbuilders to commit to implementing and promoting the ten universal principles relating to human rights, labour, the environment and anti-corruption in strategy, day-to-day operations and corporate culture.

KEY FINANCIALS

(euro/million)		31.12.2019		31.12.2018	
ECONOMIC DATA		Group	Fincantieri S.p.A.	Group restated[2]	Fincantieri S.p.A.
Revenue and income		5,849	4,314	5,416	3,967
EBITDA		320	489	421	474
EBITDA margin *		5.5%	11.3%	7.8%	11.9%
EBIT		153	390	285	388
EBIT margin **		2.6%	9.0%	5.3%	9.8%
Adjusted profit/(loss) for the year [1]		(71)	185	114	252
Extraordinary and non-recurring income and (expenses)		(67)	(45)	(51)	(45)
Profit/(loss) for the year from continued operations		(124)		75	
Profit/(loss) for the year		(148)	151	69	218
Group share of profit/(loss) for the year		(141)		72	
FINANCIAL DATA		Group	Fincantieri S.p.A.	Group	Fincantieri S.p.A.
Net invested capital		1,786	1,391	1,747	1,235
Equity		1,050	1,630	1,253	1,525
Net financial position		(736)	239	(494)	290
OTHER INDICATORS		Group	Fincantieri S.p.A.	Group	Fincantieri S.p.A.
Order intake ***		8,692	6,359	8,617	6,288
Order book ***		37,127	31,296	32,743	27,575
Total backlog ***/****		32,690	28,307	33,824	30,662
- of which backlog ***		28,590	24,707	25,524	22,462
Capital expenditure		279	215	161	109
Net cash flows for the period		(296)	(315)	402	409
Research and Development costs		134	103	122	93
Employees at the end of the period	number	19,823	8,287	19,274	7,874
Vessels delivered	number	26	5	35	7
Vessels ordered	number	28	15	27	9
Vessels in order book	number	98	57	98	47
RATIOS		Group	Fincantieri S.p.A.	Group restated[2]	Fincantieri S.p.A.
ROI		8.7%	29.7%	16.9%	33.2%
ROE		-12.9%	9.6%	5.4%	14.8%
Total debt/Total equity	number	1.2	0.6	1.0	0.7
Net financial position/EBITDA	number	2.3	n.a.	1.2	n.a.
Net financial position/Total equity	number	0.7	n.a.	0.4	n.a.

* Ratio between EBITDA and Revenue and income
** Ratio between EBIT and Revenue and income
*** Net of eliminations and consolidation adjustments
**** Sum of backlog and soft backlog
[1] Profit/(loss) before extraordinary and non-recurring income and expenses
[2] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.
The percentages contained in this report have been calculated with reference to amounts expressed in thousands of euros.

GROUP PERFORMANCE

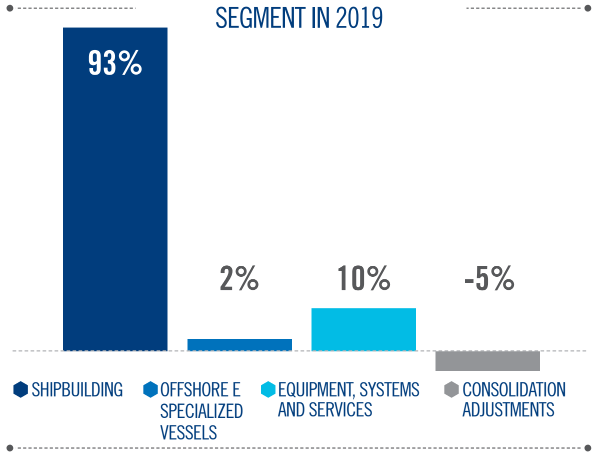
Group operational performance

Order intake

New orders in 2019 amounted to euro 8,692 million (in line with 2018), for 28 new ships, with a book-to-bill ratio (order intake/revenue) of 1.5 (1.6 in 2018). Before intersegment consolidation adjustments, the Shipbuilding segment accounted for 93% (82% in 2018), the Offshore and Specialized Vessels segment for 2% (11% in 2018) and the Equipment, Systems and Services segment for 10% (12% in 2018).

In the cruise ships business area, Fincantieri had considerable success in terms of sales in 2019, with orders received from historic customers for 13 cruise ships for 6 different brands, worth a total of over euro 6 billion. The American group Norwegian Cruise Line Holdings Ltd. confirmed its order for two new-concept cruise ships for the Oceania Cruises brand and signed a contract for the construction of a new ultra luxury cruise ship for the Regent Seven Seas Cruises brand (the third vessel of the Explorer class), making it the Group's most important client in terms of backlog. MSC Crociere has signed contracts for the construction of four luxury cruise ships, thus entering a new segment that is showing significant growth potential, while the client Viking has confirmed the order for two of the six vessels provided for in the March 2018 agreement, which will bring its fleet to 12 vessels built by Fincantieri - the largest number of vessels in the same class for a single shipowner. Including the options and ships ordered from VARD, the partnership between Viking and Fincantieri only started in 2012 and has reached a total of 20 ships. Furthermore, Princess Cruises, a Carnival group brand, has formalized contracts for the construction of two next-generation dual

% ORDER INTAKE BY OPERATING SEGMENT IN 2019



fuel cruise ships, i.e. ships also powered by Liquefied Natural Gas. Finally, the shipowner Ponant confirmed its order for two small luxury cruise ships that will operate in the South Pacific area for the Paul Gauguin Cruises brand, the eighth and ninth vessels ordered from VARD since the subsidiary's entry into the expedition cruise segment.

With reference to the naval vessels business area, the subsidiary Marinette Marine Corporation, in addition to winning a contract for the construction of the sixteenth vessel of the "Freedom" class Littoral Combat Ship (LCS 31) for the US Navy, has been involved as manufacturer of four Multi-Mission Surface Combatants worth approximately $1.3 billion under the Foreign Military Sales program between the United States and Saudi Arabia. In just ten years, the Group's US shipyards have successfully delivered ten of the LCS program ships and are building a further six vessels, making them the US Navy's partner of choice.

In addition, Fincantieri signed a contract with Chantiers de l'Atlantique as part of the French Navy's Flotlog programme for the construction of bow sections of the 4 LSS based on the "Vulcan" ship, built by Fincantieri for the Italian Navy.

In the Offshore and Specialized Vessels segment, the Group, through its subsidiary VARD, was awarded a contract with the Russian shipowner Luntos Co. Ltd., for the construction of a fishery unit and a contract with the Australian shipowner Coral Expeditions for the design and construction of a second small-scale luxury cruise ship (expedition cruise vessel), sister ship of the "Coral Adventurer" and a contract with the client Seasons Shipping for the construction of an expedition cruise vessel.

By aligning its sales force with its strategic focus on new business development, the Group has also recorded a high level of orders in the Equipment, Systems and Services segment. In particular, in the first few months of the year, the Group started construction of the bridge over the Polcevera river in Genoa, with the related orders for the supply and installation of the metal structure. As part of this contract, Fincantieri has initiated cooperation among the Group companies involved in the integrated bridge monitoring, control and inspection system, confirming its ability to capitalize on its experience in order to seize opportunities in new areas. The subsidiary Fincantieri SI has, in addition, won a prestigious order for a series of supplies and installations of high-profile equipment as part of the International Thermonuclear Experimental Reactor (ITER), a project for the construction of an experimental nuclear fusion reactor recognized as one of the most ambitious renewable energy initiatives in the world. Included in the orders acquired in this operating segment is one for Meyer Turku for the supply of stabilization systems and turbogenerator systems for heat recovery which will be installed on the new class of cruise ships under construction at the Finnish yard.

(euro/million)

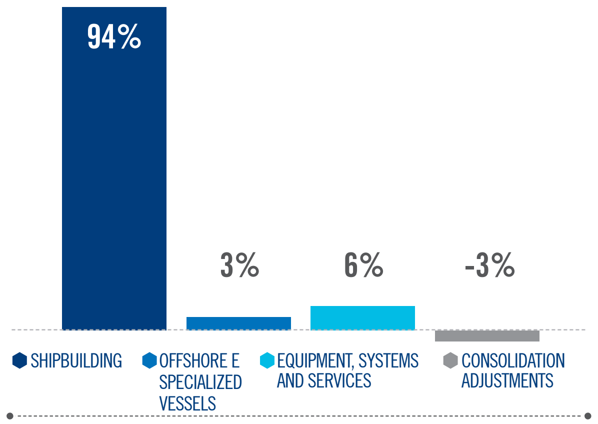
ORDER INTAKE ANALYSIS	31.12.2019		31.12.2018	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	6,359	73	6,288	73
Rest of Group	2,333	27	2,329	27
Total	**8,692**	**100**	**8,617**	**100**
Shipbuilding	8,057	93	7,129	82
Offshore and Specialized Vessels	207	2	913	11
Equipment, Systems and Services	842	10	1,006	12
Consolidation adjustments	(414)	(5)	(431)	(5)
Total	**8,692**	**100**	**8,617**	**100**

Backlog and Soft backlog

The total backlog as at 31 December 2019 includes 109 ships and amounts to euro 32.7 billion, of which euro 28.6 billion is backlog (with 98 units due for delivery up to 2027) and euro 4.1 billion soft backlog.

With the achievement of this record level of backlog (+12% compared to the previous year), the Group has once again shown its ability to convert the soft backlog into confirmed orders in a short period of time, ensuring long-term visibility for the Group and the supplier network. The backlog and

% ORDER BACKLOG BY SEGMENT AT 31 DECEMBER 2019



the total backlog guarantee respectively about 4.9 and 5.6 years of work, based on the revenues recorded in the year, with a clear focus on the Shipbuilding segment. Before intersegment consolidation adjustments, the Shipbuilding operating segment accounts for 94% of the Group order backlog (93% in 2018), the Offshore and Specialized Vessels operating segment 3% (4% in 2018) and the Equipment, Systems and Services operating segment 6% (6% in 2018). The growth of the backlog is driven by the Shipbuilding segment, which recorded an increase of euro 3,114 million (+13.1%) before consolidation adjustments. The order intake for the year and the current order backlog also highlight the central role played by Fincantieri as innovation leader in the relevant operating segments. In fact, the Fincantieri backlog includes projects for new-concept vessels with a high level of innovation, which will enrich the fleets of the Group's clients. Specifically, the two vessels for Princess Cruises will not only be the largest ever built in Italian shipyards, but will also be the first in the shipowner's fleet to be powered primarily by Liquefied Natural Gas, an ambitious and cutting edge project which launches Fincantieri into a future where emission standards will guide renewal programs for our clients' fleets.
The composition of the backlog by operating segment is shown in the following table.

(euro/million)

DETTAGLIO BACKLOG	31.12.2019		31.12.2018	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	24,707	86	22,462	88
Rest of Group	3,883	14	3,062	12
Total	**28,590**	**100**	**25,524**	**100**
Shipbuilding	26,828	94	23,714	93
Offshore and Specialized Vessels	888	3	987	4
Equipment, Systems and Services	1,736	6	1,638	6
Consolidation adjustments	(862)	(3)	(815)	(3)
Total	**28,590**	**100**	**25,524**	**100**

The soft backlog, representing the value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which are yet reflected in the order backlog, amounted to approximately euro 4.1 billion at 31 December 2019, compared with euro 8.3 billion at 31 December 2018.

(euro/billion)

SOFT BACKLOG	31.12.2019	31.12.2018
	Amounts	Amounts
Group total	4.1	8.3

The following table shows the deliveries in 2019 and those scheduled in future years for vessels currently in the order book, analysed by the main business areas and by year.

(number)

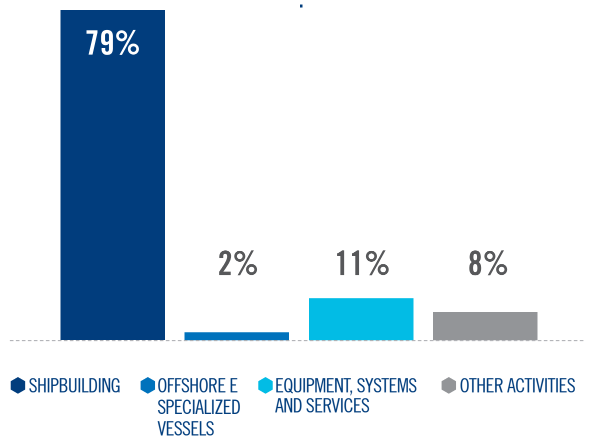
	2019	2021	2021	2022	2023	2024	BEYOND IL 2024
Cruise ships and expedition cruise vessels	8	8	9	10	6	4	9
Naval	3	6	8	8	5	5	5
Offshore and Specialized Vessels	15	9	3	1	1	1	

It should be noted with reference to the Offshore and Specialized Vessels segment that, compared to 31 December 2018, two of the vessels expected to be delivered in 2019 have been excluded from the order book and classified under Property, Plant and Equipment following the termination of the contract by the shipowner and the decision to operate the two ships in-house, while another 5 vessels have been postponed from 2019 to 2020. In addition, in order to optimize production at the American subsidiary, which has also been involved since 2019 in the development of the Foreign Military Sales program between the United States and Saudi Arabia, the delivery of two LCS agreed with the counterparty was redefined.

Capital expenditure

Capital expenditure amounted to euro 279 million in 2019, of which euro 61 million for intangible assets (including euro 27 million for development projects) and euro 218 million for property, plant and equipment. The Parent Company accounted for 77% of total capital expenditure.
Capital expenditure represented 4.8% of the Group's revenue in 2019 (2.9% in 2018).
The substantial level of capital expenditure in 2019, with particular reference to property,

% CAPITAL EXPENDITURE BY OPERATING SEGMENT IN 2019



plant and equipment, is mainly related to the upgrading of operational areas and infrastructure at some Italian shipyards to meet new production scenarios, foreseeing the construction of ever larger ships and a strong increase in the volume of activity, mainly related to management of the substantial order backlog already acquired. In addition, capital expenditure was made to increase safety standards for plant, equipment and buildings and to continue the modernization of Vard Tulcea and Vard Braila shipyards in preparation for both hull construction and the multi-year program for the construction of pre-fitted sections and sections of cruise ships to support Fincantieri's production network.

(euro/million)

CAPITAL EXPENDITURE ANALYSIS	31.12.2019		31.12.2018	
	Amounts	%	Amounts	%
FINCANTIERI S.p.A.	215	77	109	68
Rest of Group	64	23	52	32
Total	**279**	**100**	**161**	**100**
Shipbuilding	222	79	124	77
Offshore and Specialized Vessels	6	2	6	4
Equipment, Systems and Services	30	11	18	11
Other activities	21	8	13	8
Total	**279**	**100**	**161**	**100**
Intangible assets	61	22	37	23
Property, plant and equipment	218	78	124	77
Total	**279**	**100**	**161**	**100**

R&D and innovation

The Group is well aware that Research and Innovation are the foundations for success and future competitiveness. Accordingly, its 2019 income statement accounts for euro 134 million in Research and Development expenditure on numerous projects involving product and process innovation; the Group systematically carries out such activities, seen as a strategic prerequisite for retaining its leadership of all high-tech market sectors, now and in the future.
In addition, the Group capitalized euro 27 million in development costs in 2019 for projects with long-term utility; these projects mainly relate to the development of innovative solutions and systems to optimize onboard operations and improve the efficiency of cruise ships, both in terms of energy balance and reducing environmental impact, as well as the realization of innovative systems to upgrade the technological capacity of certain types of naval vessels.

Group financial results

Presented below are the reclassified versions of the income statement, statement of financial position and statement of cash flows and the breakdown of net financial position, used by management to monitor business performance.
A reconciliation of these reclassified statements to the IFRS statements can be found later on in this report.
It should be noted that following the decision to exit the business of small vessel construction for the fishery sector and support vessels for fishery farms and then to divest the Aukra shipyard, the net results of this activity have been classified as discontinued operations (the 2018 figures have been restated).

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

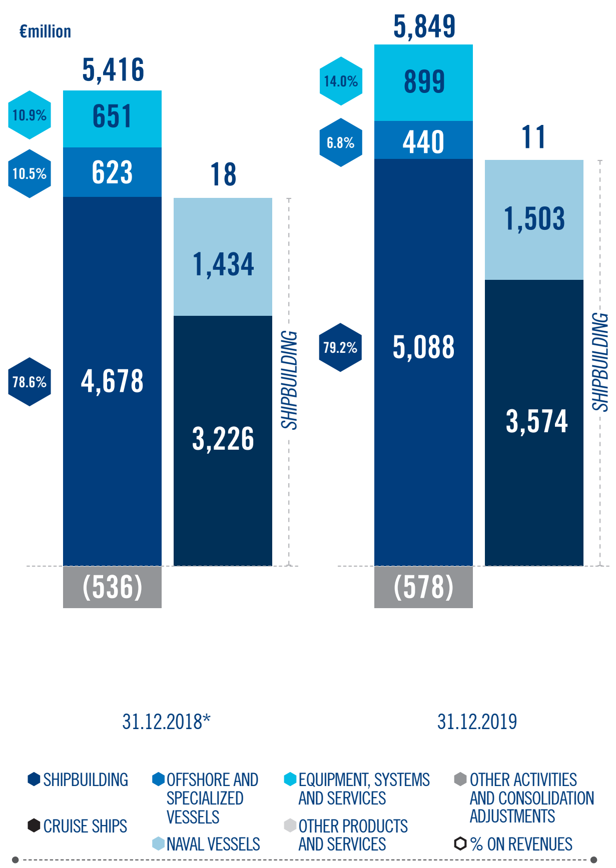
(euro/million)

	31.12.2019	31.12.2019 Discontinued Operations	31.12.2018 Restated [2]	31.12.2018 Discontinued Operations
Revenue and income	**5,849**	**46**	**5,416**	**58**
Materials, services and other costs	(4,497)	(60)	(4,029)	(60)
Personnel costs	(996)	(7)	(941)	(5)
Provisions	(36)		(25)	
EBITDA	**320**	**(21)**	**421**	**(7)**
EBITDA margin	**5.5%**	**-45.9%**	**7.8%**	**-11.6%**
Depreciation, amortization and impairment	(167)	(2)	(136)	(1)
EBIT	**153**	**(23)**	**285**	**(8)**
EBIT margin	**2.6%**	**-49.3%**	**5.3%**	**-13.0%**
Finance income/(costs)	(134)		(104)	
Income/(expense) from investments	(3)		(1)	
Income taxes	(87)		(66)	2
Adjusted profit/(loss) for the year [1]	**(71)**		**114**	
of which attributable to Group	(64)		117	
Extraordinary and non-recurring income and expenses	(67)	(1)	(51)	
Tax effect of extraordinary and non-recurring income and expenses	14		12	
Profit/(loss) for the year from continued operations	**(124)**		**75**	
of which attributable to Group	(117)		78	
Net profit/(loss) from discontinued operations	(24)	(24)	(6)	(6)
Profit/(loss) for the year	**(148)**		**69**	
of which attributable to Group	(141)		72	

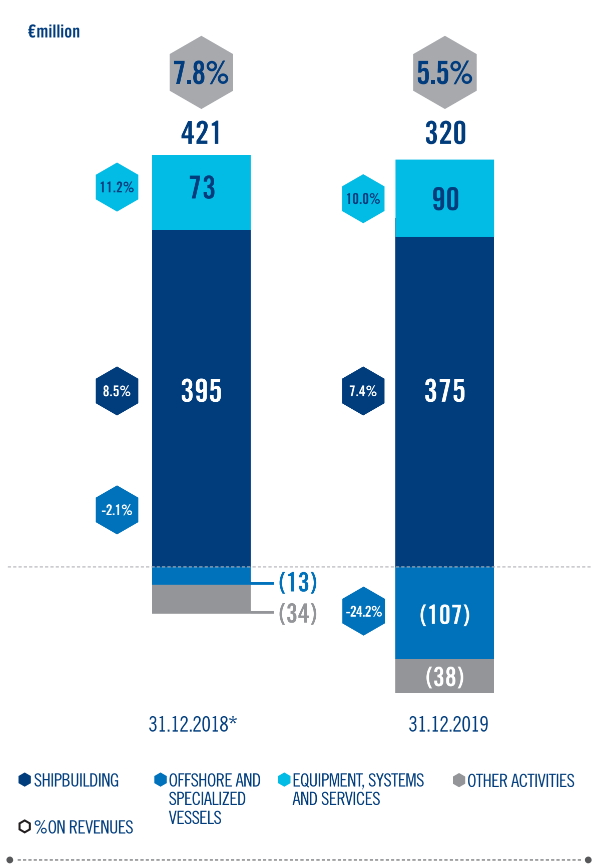
[1] Profit/(loss) before extraordinary and non-recurring income and expenses.
[2] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.

Revenue and income, equal to a record amount of euro 5,849 million, increased by euro 433 million compared to the previous year (+8.0%), with a significant increase in volumes in the Shipbuilding (+8.8%) and Equipment, Systems and Services (+38.1%) segments against a reduction in activity in Offshore and Specialized Vessels (-29.4%). Revenue from the cruise ships business area increased by 10.8% and accounted for 56% of Group revenues (54% at 31 December 2018), while revenues from the naval vessels business area increased by 4.8% and accounted for 23% of Group revenues (24% at 31 December 2018). Revenue generated by foreign clients accounted for 82% of total revenues in 2019, in line with 2018.
EBITDA is equal to euro 320 million (euro 421 million in 2018), with an EBITDA margin (percentage on Revenue and income) of 5.5% (7.8% in 2018). This margin reflects the profitability of activities relating to military programs, the excellent results of cruise operations in Italy and the Equipment, Systems and Services segment, set against the significant operating losses of the subsidiary VARD in both the Cruise business area and Offshore and Specialized Vessels.

REVENUE ANALYSIS



EBITDA ANALYSIS



* The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.

EBIT came to euro 153 million in 2019 (euro 285 million in 2018), with an **EBIT margin** (EBIT expressed as a percentage on Revenue and income) of 2.6% (5.3% in 2018). The reduction is attributable, as well as to the reasons explained above with reference to the Group's EBITDA, to the increased amortization following the recording of rights of use in application of IFRS 16 (euro 17 million).
Finance income/(costs) and Income/(expense) from investments record a net expense of euro 137 million (net expense of euro 105 million at 31 December 2018). The increase in this item is mainly due to financial costs on hedging derivatives for orders in foreign currency (increased by euro 41 million compared to 2018 in line with the increase in revenues from hedged orders) and impairment of financial receivables (euro 7 million); these effects were partially offset by lower finance costs related to debt (decreased by euro 18 million).
Income taxes record a net balance of euro 87 million in 2019, compared with a net balance of euro 66 million in 2018, mainly due to the Parent Company.
Adjusted profit/(loss) shows a loss of euro 71 million at 31 December 2019 (euro 114 million at 31 December 2018), reflecting the factors discussed above. The Group share of this result is a loss of euro 64 million (profit of euro 117 million in 2018).
Extraordinary and non-recurring income and expenses amount to euro 67 million in net expenses (euro 51 million in 2018) and include costs for legal disputes (euro 53 million, of which euro 40 million are asbestos-related litigation), charges for business reorganization plans related to the subsidiary VARD (euro 9 million) and other costs linked to non-recurring operations (euro 5 million). The same item at 31 December 2018 amounted to euro 51 million and included costs for legal disputes (euro 39 million, of which euro 37 million related to asbestos-related litigation) and charges for business reorganization plans related to the subsidiary VARD (euro 5 million), other costs linked to non-recurring operations (euro 11 million) and income from the sale of a shareholding (euro 4 million).
Tax effect of extraordinary and non-recurring income and expenses was a net positive amounting to euro 14 million at 31 December 2019.
Profit/(loss) for the year in 2019 was a net negative of euro 148 million (net positive of Euro 69 million at 31 December 2018) and was affected by the negative euro 24 million for discontinued operations, relating to losses in the small fishery vessels and fishery farms support vessels construction business at the Aukra shipyard. Net of this value, the **Profit/(loss) for the year for continued operations** was a loss of euro 124 million (profit of euro 75 million in 2018). The Group share of this result is a loss of euro 141 million (profit of euro 72 million in 2018).

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/million)	31.12.2019	31.12.2018
Intangible assets	654	618
Rights of use	90	-
Property, plant and equipment	1,225	1,074
Investments	75	60
Other non-current assets and liabilities	(79)	8
Employee benefits	(60)	(57)
Net fixed capital	**1,905**	**1,703**
Inventories and advances	828	881
Construction contracts and client advances	1,415	936
Construction loans	(811)	(632)
Trade receivables	677	749
Trade payables	(2,270)	(1,849)
Provisions for risks and charges	(89)	(135)
Other current assets and liabilities	125	94
Net working capital	**(125)**	**44**
Net assets (liabilities) held for sale and discontinued operations	**6**	**-**
Net invested capital	**1,786**	**1,747**
Share capital	863	863
Reserves and retained earnings attributable to the Group	156	364
Non-controlling interests in equity	31	26
Equity	**1,050**	**1,253**
Net financial position	**736**	**494**
Sources of funding	**1,786**	**1,747**

The **Reclassified consolidated statement of financial position** reports an increase in Net invested capital at 31 December 2019 of euro 39 million compared to the end of the previous year, mainly due to the following factors:

- **Net fixed capital**: shows an overall increase of euro 202 million. Among the most significant effects, the following should be noted in particular: i) recording of the right to use leased assets following the initial application of IFRS 16, net of the related depreciation (euro 90 million); ii) the increase in the value of Intangible assets and Property, plant and equipment of euro 187 million, due mainly to the investments for the period (euro 279 million), the recording as fixed assets of two vessels previously booked as work in progress following the decision to manage them in-house (euro 34 million), all partially offset by depreciation and amortization for the period (euro 150 million); and iii) the reduction in Other non-current assets and liabilities (euro 87 million) resulting from the fluctuation in the fair value of foreign currency derivatives negotiated to cover contracts in currencies other than the euro.
- **Net working capital**: records a negative balance of euro 125 million (positive for euro 44 million at 31 December 2018). The main variations relate to: i) the decrease in Inventories (euro 53 million), mainly related to the delivery of a vessel classified among inventories following the cancellation of the order and subsequently resold; ii) the increase in Construction contracts and client advances (euro 479 million), due to the volumes realized in

the year net of deliveries for the period and the reclassification of ships recorded as fixed assets; iii) the decrease in Trade receivables (euro 72 million) mainly due to the collection of the final instalment for delivered vessels; iv) the reduction in Trade payables (euro 421 million) due to the higher volumes completed in particular in the last quarter of 2019; v) the reduction of Provisions for risks and charges (euro 46 million), mainly due to use of the provision for the "Serene" litigation, following the settlement agreement on closure of all the outstanding proceedings and (vi) the increase in construction loans (euro 179 million).
Construction loans at 31 June 2019 amounted to euro 811 million overall, with a reduction of euro 179 million compared to 31 December 2018, with euro 550 million related to the Parent Company and euro 261 million to the VARD subsidiary. Given the operational nature of construction loans and particularly the fact that these types of loan are obtained and can be used exclusively to finance the contracts to which they refer, management treats them in the same way as client advances and so classifies them as part of Net working capital.

- **Equity**, amounting to euro 1,050 million, fell by euro 203 million, mainly due to the loss for the year of euro 148 million, the distribution of dividends (euro 17 million) and the reduction in the reserve linked to cash flow hedging instruments (euro 26 million).

CONSOLIDATED NET FINANCIAL POSITION

(euro/million)	31.12.2019	31.12.2018
Cash and cash equivalents	**382**	**677**
Current financial receivables	**2**	**17**
Current bank debt	(163)	(197)
Bonds and commercial papers - current portion	(75)	(231)
Current portion of bank loans and credit facilities	(143)	(54)
Other current financial liabilities	(18)	(3)
Current debt	**(399)**	**(485)**
Net current cash/(debt)	**(15)**	**209**
Non-current financial receivables	**91**	**63**
Non-current bank debt	(730)	(760)
Bonds - non-current portion	-	-
Other non-current financial liabilities	(82)	(6)
Non-current debt	**(812)**	**(766)**
Net financial position	**(736)**	**(494)**

The **Consolidated net financial position**, which excludes construction loans, reports a net debt balance of euro 736 million (euro 494 million in net debt at 31 December 2018). The change is mainly due to the investments made during the period and the financial dynamics typical of the cruise ship business. The Net financial position at 31 December 2019 also includes the recognition of the financial liabilities deriving from the application of IFRS 16 (euro 92 million).

RECLASSIFIED CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/million)	31.12.2019	31.12.2018 restated[1]	31.12.2018 published
Net cash flows from operating activities	209	37	30
Net cash flows from discontinued operations	(22)	(7)	
Net cash flows from investing activities	(310)	(163)	(163)
Net cash flows from financing activities	(173)	535	535
Net cash flows for the period	**(296)**	**402**	**402**
Cash and cash equivalents at beginning of period	**677**	**274**	**274**
Effects of currency translation difference on opening cash and cash equivalents	1	1	1
Cash and cash equivalents at end of period	**382**	**677**	**677**

[1] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.

The **Reclassified consolidated statement of cash flows** shows negative **net cash flows for the period** of euro 296 million (positive for euro 402 million in 2018). The investments for the period were financed partly with the cash flow generated by operating activities and partly with the financial resources generated last year.
At 31 December 2019, construction loans generated cash flows of 165 million (at 31 December 2018 they had absorbed cash flows amounting to euro 12 million).

Economic and financial indicators

The following table presents additional economic and financial measures used by the Group's management to monitor the performance of its main business indicators in the periods considered. The following table shows the trend in the main profitability ratios and the strength and efficiency of the capital structure in terms of the relative importance of sources of finance between net debt and equity for the years ended 31 December 2019 and 2018.

	31.12.2019	31.12.2018 restated[1]	31.12.2018 published
ROI	8.7%	16.9%	16.5%
ROE	-12.9%	5.4%	5.4%
Total debt/Total equity	1.2	1.0	1.0
Net financial position/EBITDA	2.3	1.2	1.2
Net financial position/Total equity	0.7	0.4	0.4

[1] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.

The changes in ROI and ROE are mainly attributable to the operating results for 2019 (EBIT fell from euro 285 million at 31 December 2018 to euro 153 million at 31 December 2019 and the net result moved from a profit of euro 69 million to a loss of euro 148 million).
With reference to the indicators of strength and efficiency of the capital structure, Total debt/Total equity is equal to 1.2, substantially in line with the ratio at 31 December 2018. Net financial position/EBITDA of 2.3 and Net financial position/Total equity of 0.7 reflect the increase in the Group's net debt accompanied by reduced profitability for the period. It should be noted that the financial indebtedness at 31 December 2019 also includes the recognition of the financial liabilities deriving from the application of IFRS 16 (euro 92 million).

OPERATIONAL REVIEW BY SEGMENT

Shipbuilding

The Shipbuilding operating segment is engaged in the design and construction of cruise ships, ferries, naval vessels and mega yachts. Production is carried out at the Group's shipyards in Italy, Europe and the United States.

(euro/million)

	31.12.2019	31.12.2018
Revenue and income *	5,088	4,678
EBITDA *	375	395
EBITDA margin */**	7.4%	8.5%
Order intake *	8,057	7,129
Order book *	34,206	29,620
Backlog *	26,828	23,714
Capital expenditure	222	124
Vessels delivered (number)	11	13

* Before adjustments between operating segments.
** Ratio between operating segment EBITDA and Revenue and income.

Revenue and income

The revenues of the Shipbuilding operating segment at 31 December 2019 are euro 5,088 million, up by 8.8% compared to 31 December 2018.
Revenues from the cruise ship business area totalled euro 3,574 million (euro 3,226 million at 31 December 2018), an increase of 10.8%, despite the negative impact of the change in the euro/Norwegian Krone exchange rate (about euro 14 million) generated by translation of the financial statements of the Norwegian subsidiaries. This growth is attributable to higher volumes and the increase in the size and value of ships under construction in the Group's Italian shipyards, in addition to the significant increase in volumes developed by the VARD Cruise business unit (+7% compared to 2018).
The naval vessels business area recorded revenues of euro 1,503 million (euro 1,434 million at 31 December 2018), an increase of 4.8%, and benefited from the positive change in the Euro/USD exchange rate (approximately euro 28 million) resulting from translation of the financial statements of the US subsidiaries. Construction work on orders for the Qatari Ministry of Defence, including the design of a corvette and a patrol vessel, as well as activities relating to the Italian Navy fleet renewal programme, are going ahead at full speed. During the year, three vessels were launched: the "Trieste" Landing Helicopter Dock and the first Multipurpose Offshore Patrol Vessel, "Paolo Thaon di Revel" of the Italian Navy fleet renewal program - first vessel delivery for the program is scheduled in 2020 - as well as the ninth vessel from the FREMM program "Spartaco Schergat". We also note the positive contribution of the subsidiary FMG engaged in the development of the LCS program and the Foreign Military Sales program between the United States and Saudi Arabia.

FINCANTIERI GROUP / REPORT ON OPERATIONS

EBITDA

Segment EBITDA was euro 375 million at 31 December 2019 (euro 395 million at 31 December 2018), with an EBITDA margin of 7.4 % (8.5% at 31 December 2018).
This margin reflects the profitability of activities relating to military programs and the excellent results of cruise operations in Italy but is considerably affected by the significant operating losses of some VARD Cruise business unit projects. Cruise ship building in Italy saw a structural increase in margins, benefiting both from the positive momentum of the market and strategic choices linked to increasing production efficiency and derisking of the order book. The negative operating performance of the VARD Cruise business unit is linked, on the one hand, to higher costs incurred for recovery actions on production programs with the aim of guaranteeing delivery of ships on schedule and, on the other hand, to revision of cost estimates for finishing the projects in the order book. These higher costs have been identified, with particular reference to some particularly complex projects such as prototype ships, following an in-depth review of industrial management methods and economic planning for VARD orders.
From an operational viewpoint, the conversion of the Romanian Tulcea site for the construction of complete expedition cruise ships is nearing completion, while support for the Group's Italian shipyards is fully operational to develop the substantial volume of activity required by the record order book. This conversion has brought the monthly output of the yard to 3,500 tonnes per month, compared to the 2,500 tonnes per month developed at the end of 2018, and will lead to a substantial increase in the value of the yard also due to the acquisition of specific know-how.

Order intake

New order intake of euro 8,057 million in 2019 refers to:

- two new-concept cruise ships for Norwegian Cruise Line Holdings Ltd. destined for the Oceania Cruises brand, which will launch the new “Allura class”;
- an ultra luxury cruise ship (the third vessel of the Explorer class) for Norwegian Cruise Line Holdings Ltd. destined for the Regent Seven Seas Cruises brand;
- four luxury cruise ships for MSC Crociere;
- two vessels for the client Viking as part of the March 2018 agreement for six vessels;
- two next-generation cruise ships for Princess Cruises, a brand of the Carnival group;
- two luxury cruise ships for the shipowner Compagnie du Ponant;
- four bow sections for Chantiers de l'Atlantique for four Logistic Support Ships of the French Flotlog program;
- a further vessel as part of the Littoral Combat Ship (LCS 31);
- four Multi-Mission Surface Combatants for Saudi Arabia;
- a barge unit for the client NorthStar Midstream;
- an interlake bulk carrier vessel for the client Interlake Steamship co.;
- a ferry for Washington Island Ferry Line.

Capital expenditure

Capital expenditure in Property, plant and equipment by the Parent Company during 2019 mostly involved:

- the continuation of work to update the working areas and infrastructure at some shipyards, in particular Monfalcone and Marghera, to meet the new production scenarios, which involve the construction of increasingly large vessels, and the upgrading and improvement of the safety standards of plant, equipment and buildings;
- the continuation of activities to introduce new technologies, in particular at the Monfalcone shipyard, as part of the requirements of the Integrated Environmental Authorization (IEA).

Capital expenditure by the subsidiary VARD in 2019 mainly related to the continuation of activities to increase production capacity and raise the efficiency of production processes at the Tulcea yard, in order to guarantee adequate support both for hull construction and the long-term program to produce pre-fitted sections of cruise ships for the Group's Italian shipyards.
Capital expenditure in the US shipyards mainly concerned maintenance of infrastructure and upgrading of production systems.

Production

The number of vessels delivered during 2019 is summarized as follows:

(number)	DELIVERIES
Cruise ships	8
Naval vessels	3
Mega-yacht	

The vessels delivered were:

- “Costa Venezia”, the first vessel of the Italian Costa Crociere designed specifically for the Chinese market delivered at the Monfalcone shipyard;
- “Viking Jupiter”, the sixth cruise ship for Viking, delivered at the Ancona shipyard;
- "Carnival Panorama", third vessel in the Vista class for Carnival Cruise Line at the Marghera shipyard;
- "Sky Princess", fourth vessel of the Royal Princess class for the shipowner Princess Cruises at the Monfalcone shipyard;
- “Le Bougainville” and “Le Dumont-d’Urville”, two vessels for the French shipowner Ponant, at the Norwegian Søviknes shipyard;
- “Hanseatic Nature” and “Hanseatic Inspiration”, the first two vessels for the client Hapag-Lloyd, at the Norwegian Langsten shipyard;
- LCS 15 “Billings” and LCS 17 “USS Indianapolis”, for the US Navy, as part of the LCS program, at the Marinette shipyard (Wisconsin);
- “Antonio Marceglia”, the eighth vessel in a series of ten multi-role frigates (FREMM) for the Italian Navy, at the Muggiano shipyard (La Spezia).

Offshore and specialized vessels

The Offshore and Specialized Vessels operating segment includes the design and construction of high-end offshore support vessels, specialized vessels and vessels for offshore wind farms and open ocean aquaculture, as well as innovative products in the field of drillships and semi-submersible drilling rigs. Fincantieri operates in this market through the VARD Group, FINCANTIERI S.p.A. and Fincantieri Oil & Gas S.p.A.
The VARD Group also provides its clients with turnkey electrical systems, inclusive of engineering, manufacturing, installation, integration testing and commissioning.
It should be noted that following the decision to exit the business of small vessel construction for the fishery sector and support vessels for fishery farms and therefore to divest the Aukra yard, the net results of this activity have been classified as discontinued operations in the income statement and therefore are not included in the operating segment data which refers only to continued operations (the 2018 figures have been restated).

(euro/million)	31.12.2019	31.12.2018 restated[1]	31.12.2018 published
Revenue and income *	440	623	681
EBITDA *	(107)	(13)	(20)
EBITDA margin */**	-24.2%	-2.1%	-2.9%
Order intake *	207	913	913
Order book *	1,449	1,860	1,860
Backlog *	888	987	987
Capital expenditure	6	6	6
Vessels delivered (number)	15	22	22

* Before adjustments between operating segments.
** Ratio between operating segment EBITDA and Revenue and income.
[1] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra shipyard.

Revenue and income
Revenues for the Offshore and Specialized Vessels operating segment at 31 December 2019 amount to euro 440 million, a decrease of 29.4% compared to 31 December 2018 (euro 623 million) and reflect the negative impact of the change in the Euro/Norwegian Krone exchange rate (euro 12 million) due to the conversion of the VARD financial statements. The reduction in revenues is due to the slowdown in production volumes linked to the almost total absence of orders in the core sector, with the consequent reduced use of production capacity.

EBITDA
The EBITDA of the operating segment was negative for euro 107 million at 31 December 2019 (euro 13 million at 31 December 2018), with an EBITDA margin of -24.2 % (-2.1% at 31 December 2018).
The segment's performance reflects the operating difficulties typical of an extremely diversified order book and the resulting complexity of the production process. Management of an order book which is challenging in terms of numbers, diversity of projects and types of ships under construction at the same time, as well as their high innovative content, has led to the need to revise the cost estimates at the end of the orders, resulting in negative margins. These are, in some cases, prototype projects which, although requiring greater use of resources in the implementation phase, have at the same time allowed development of the necessary know-how for future development.
In addition to an in-depth review of the industrial management and economic planning of Vard orders, the subsidiary has continued with the reduction of its production footprint, which has seen it exit from the fishery vessel and fishery farm support vessel construction business, with the divestment of the Aukra and Brevik shipyards, while the activities and workforce of the Brazilian Promar yard have been reduced to a minimum in order to contain operating costs.

Order intake
New order intake amounted to euro 207 million in 2019. In detail:

• one fishery vessel for the shipowner Luntos;
• a small luxury expedition cruise vessel for the Australian shipowner Coral Expeditions to be built at the Vietnamese Vung Tau shipyard;
• a small luxury expedition cruise vessel for the shipowner Season Shipping to be built at the Vietnamese Vung Tau shipyard.

Capital expenditure
Capital expenditure in 2019 mainly relates to measures to maintain production efficiency in European and Non-European shipyards.

Production
The number of vessels delivered during 2019 is summarized as follows:

(number)	DELIVERIES
Ferries	2
Coral Expedition	1
OSCV	3
Fishery&Aqua	9

In detail:

• three OSCVs (Offshore Subsea Construction Vessels), two of which were delivered to the shipowner Topaz Energy and Marine Limited at the Brattvåg shipyard (Norway), and one of which was delivered to the shipowner Dofcon Navegação Ltda at the Promar shipyard (Brazil);
• one expedition cruise vessel delivered to the Australian shipowner Coral Expedition at the Vung Tau shipyard (Vietnam);
• seven Fishery vessels delivered at the Aukra shipyard (Norway) to the shipowners Bergur-Huginn (two vessels), Gjøgur (two vessels), Skinney-Thinganes (two vessels) and Utgerdarfelag Akureyringa (one vessel) and one Fishery vessel delivered at the Brattvåg shipyard (Norway) to the shipowner Aker BioMarine Antarctis AS;
• one Aqua vessel delivered to FSV Group by the Aukra shipyard (Norway);
• two Ferries delivered to Torghatten Nord AS at the Brevik shipyard (Norway).

Equipment, systems and services

The Equipment, Systems and Services operating segment includes the business areas for the design and manufacture of high-tech systems and components, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, integrated systems, cabins, repair and conversion services, logistical support and after-sales services, as well as supply of solutions for electronic systems and software and infrastructure and maritime works. These activities are carried out by FINCANTIERI S.p.A. and by some of its subsidiaries, including Isotta Fraschini Motori S.p.A., Issel Nord S.r.l., Seastema S.p.A., Marine Interiors S.p.A., Marine Interiors Cabins S.p.A., the INSIS Group, Fincantieri Dragaggi Ecologici S.p.A., Fincantieri SI S.p.A., Fincantieri Infrastructure S.p.A. and FMSNA Inc.

(euro/million)

	31.12.2019	31.12.2018
Revenue and income *	899	651
EBITDA *	90	73
EBITDA margin */**	10.0%	11.2%
Order intake *	842	1,006
Order book *	2,951	2,519
Backlog *	1,736	1,638
Capital expenditure	30	18

* Before adjustments between operating segments.
** Ratio between operating segment EBITDA and Revenue and income.

Revenue and income

Revenues from the Equipment, Systems and Services segment, amounting to euro 899 million (+38.1% compared to 31 December 2018), confirm the growth trend thanks to the development of a significant order backlog for services provided in the context of military orders and an increase in volumes for repair and conversion activities. The significant contribution from the activities developed by Fincantieri Infrastructure during 2019 should also be noted.

EBITDA

The EBITDA of the operating segment was euro 90 million at 31 December 2019 (euro 73 million at 31 December 2018), with an EBITDA margin of 10.0 %, substantially in line with the result at 31 December 2018). There was a higher contribution from infrastructure projects and conversion and refurbishment activities, characterized by a lower profitability profile than other businesses in the same segment but strategically important as they enable the development and maintenance of client relationships and order backlog and contribute to increasing employment at some of the Group's Italian yards. Prominent among these is the supply and installation of the metal structure for the construction of the bridge over the Polcevera river in Genoa and the Grimaldi Lines project, which involves the installation of cutting-edge solutions aimed at reducing environmental impact and saving energy, such as energy storage systems that enable vessels not to use diesel engines during stops in ports, in line with the objective promoted by the Grimaldi group of zero emissions in port.

Order intake

New order intake for the Equipment, Systems and Services segment amounted to euro 842 million in 2019, mostly comprising:

- supply of In Service Support (ISS) to the Italian Navy on the Submarine and FREMM program;
- the supply and installation of the steel deck for the bridge in Genoa;
- third lot for the construction of electrical installations for the ITER site at the Cadarache nuclear site;
- eight stabilization plants for various clients;
- three THR (Heat Recovery Systems) steam turbines, two for the client Meyer Turku and one for the client SWS China;
- one model 36 steam turbine, Waste To Energy segment, for a Moroccan client and revamping of a steam turbine for an Italian client;
- three THR (Heat Recovery System) steam turbine revamps for the client RCCL;
- supply of the automation package for four vessels from the Korean Navy's FFX-II program, for the Korean Navy's ASR (Auxiliary Submarine Rescue) vessel and for the Qatari Navy's OPV;
- Propulsion propellers and axis lines, manoeuvring propellers, steering and handling systems for the Qatar LPD order;
- upgrading of the automation system of the Fiorillo vessel for the Italian Coast Guard;
- continuation of the Cavour upgrading program;
- installation of the valve remote control system for the Italian Navy LHD contract;
- supply of the navigation system and console for a 45 m yacht;
- four emergency generator units for four cruise contracts and four 1708 HPCR generator units for use on a US Navy LCS vessel;
- four Expeditionary Fast Transport engines for the US Navy;
- after-sales services and supply of spare parts for programs of the Italian Navy and US Coast Guard, for cruise clients and other smaller clients;
- after-sales services and supply of cabins, wet units, public areas, kitchens and "complete accommodation" packages for ship platforms;
- provision of packages related to infrastructure and IT security;
- supply of solutions related to Light combat management systems/optronics;
- automation and logistics systems and plant;
- provision of Transport & Mobile Solutions.

Capital expenditure

Capital expenditure in 2019 mainly relates to upgrading of the operating areas and infrastructure of the new Fincantieri Infrastructure plant in Valeggio sul Mincio.

Other activities

Other activities primarily refer to the costs incurred by corporate headquarters for directing, controlling and coordinating the business that are not allocated to other operating segments.

(euro/million)

	31.12.2019	31.12.2018
Revenue and income	2	-
EBITDA	(38)	(34)
EBITDA margin	n.a.	n.a.
Capital expenditure	21	13

n.a. not applicable.

Capital expenditure

The main initiatives relate to capital expenditure on:

- ongoing work to implement an integrated system for ship design (CAD) and project lifecycle management (PLM), aimed at improving the efficiency and effectiveness of the engineering process;
- the development of information systems to support the Group's growing activities and optimise process management, with particular reference to the upgrading of management systems and the exporting of these systems to the main subsidiaries of the Group.

As in previous years, investment in renewing the Group's network infrastructure and hardware continued.

CORE MARKETS

Cruise Ships

The cruise ship segment once again recorded excellent performance. For ships of more than 10,000 tons in gross tonnage, 2019 saw orders finalized for 25 vessels, compared with 23 the previous year. For ships of less than 10,000 tons in gross tonnage, orders for 4 vessels were finalized. The worldwide order book at December 2019 contains 98 vessels (including those subject to a Memorandum of Understanding) with deliveries stretching to 2027.
During 2019 the demand divers all remained positive, with increasing interest in cruise tourism, the growth of a substantial middle class in Asian countries and in China in particular and the entry of new investors. At the same time, demand emerged for the replacement of ships that entered fleets in the early 1990s, now made obsolete by the entry into force of new safety and environmental regulations and by the increased profitability of new generation ships with lower management costs and a diverse range of entertainment on board. The growth in the operating segment has gone beyond expectations: according to the CLIA (Cruise Lines International Association), passengers transported in 2019 would amount to 30 million.
2019 was characterized by high demand for small and medium-sized ships to serve the expedition and luxury segments: 20 orders out of 25, for 10 cruise lines, in fact concern ships with a gross tonnage of less than 70,000 tonnes.
With reference to the Fincantieri Group, out of 13 vessels, 11 concerned vessels of less than 70,000 tonnes. In detail: two newly designed vessels for Oceania Cruises, a third Explorer class vessel for Regent Seven Seas Cruises, two vessels for Viking Ocean (part of the agreement signed in March 2018 to build 6 vessels), four vessels for MSC Cruises (through which this operator will enter the luxury segment) and two hybrid electric-powered luxury vessels for Ponant, which will operate under the Paul Gauguin Cruises brand.
In the large vessels segment, Fincantieri finalized with Princess Cruises, a Carnival Group brand, the contracts for the construction of two vessels with a gross tonnage of 175,000 tonnes, the biggest ever built in Italy and the first in the Princess Cruises fleet to be primarily gas fuelled. Finally, for ships of less than 10,000 tonnes, the VARD subsidiary completed a contract for the construction of a vessel on behalf of the company Coral Expeditions, the sister vessel of the one delivered by the Vietnamese shipyard Vard Vung Tau in April 2019.

Naval Vessels

In 2019 there was considerable buoyancy in the market for naval vessels, with the finalization of several contracts, mainly assigned to domestic shipbuilders.
Also in this area, the subsidiary Fincantieri Marine Group ("FMG") in the United States received confirmation of the order for the LCS 31, the 16th vessel in the Freedom class ordered by the US Navy. So far, ten vessels in this class have been delivered and 6 more are at various stages of construction.
In December, the US Navy awarded the consortium led by Lockheed Martin, of which Fincantieri Marinette Marine (FMM) is a member, an order worth about $1.3 billion for the construction of four Multi-Mission Surface Combatant (MMSC) vessels for Saudi Arabia, as part of the country's Foreign Military Sales program. The vessels will be built at the Marinette shipyard.
In addition, Fincantieri has received an order from Chantiers de l'Atlantique for the construction of the bow sections of four logistic support ships based on the design of the Italian vessel "Vulcano", which will be built at the Castellammare di Stabia shipyard. The contract is part of the FLOTLOG programme ("Fleets Logistique"), which provides for the construction of four logistic support ships (LSS) for the French Navy by the temporary consortium formed by Chantiers de l'Atlantique and Naval Group under the Franco-Italian LSS program led by OCCAR (Organisation for Joint Armament Cooperation) on behalf of DGA, the French Directorate-General for Armaments, and its Italian counterpart NAVARM.
Over the last two years, Fincantieri and Naval Group have worked intensively on the project to create an industrial alliance and in January 2020 Naviris, the 50/50 joint venture formed by the two companies, became fully operational. With its HQ in Genoa and a subsidiary in Ollioules, the Naviris team will focus on bilateral and export projects, with the aim of strengthening European industry through the preparation of joint bids, the pursuit of a more efficient supply policy, the development of joint research and innovation activities, the sharing of testing facilities/tools and skills networks. The path towards consolidation in both the civil and naval shipbuilding appears necessary to address the cyclical nature of the market, the rate of technological innovation, the growth in the size and value of products and the presence of large markets and/or powerful clients.

Mega-yacht

In the mega yacht sector, 2019 closed with cautious optimism; according to preliminary data, orders for yachts over 60 metres were maintained in line with 2018 (25 vessels). In terms of demand drivers, the combined equity of the UHNW[1] population saw, for the first time in three years, a decrease of 1.7% compared to 2018.

Offshore

The offshore sector was again characterized this year by a weak market situation despite a slight recovery in oil prices, which closed the year at around 69 dollars per barrel, compared to an annual average of 64 dollars.
The support vessels sector is still characterized by an unsatisfactory utilization rate of around 64%; oversupply and the presence of numerous decommissioned vessels have further depressed freight rates.
During 2019, the overall demand for new vessels amounted to about ten units and mainly concerned small vessels dedicated to maintenance and service activities, mainly for wind farms.

[1] UHNW = Ultra High Net Worth, individuals with $30 million or more in net wealth.

Repairs and conversions

The market for naval repairs in general was positively affected by the demand for work to adapt vessels to the new standards imposed by the entry into force of the regulations on emissions and treatment of ballast water, which require the installation, respectively, of devices to treat fumes (scrubbers) and water. However, competition remains very intense, especially in the area of merchant ship repair (tankers, bulk carriers), but also for the installation of scrubbers, an activity which has seen a strong presence from Chinese shipyards.
The passenger, ferry and cruise ship market remains the most attractive area, providing opportunities for maintenance and refitting projects, including some of considerable value and complexity.
In this area, in 2019 Fincantieri delivered the two cruise ferries "Cruise Roma" and "Cruise Barcelona", following their lengthening and transformation with the insertion of a section about 29 meters long which provides an additional 600 additional linear meters, 80 beds in new passenger cabins, two overnight rooms with the capacity for 450 seats and a new 270-seat restaurant. In the spring, Fincantieri launched the extension of the Star Breeze, the first vessel of the shipowner Windstar Cruises (Xanterra Travel Collection group) with whom Fincantieri signed a contract in 2018 for the extension and modernisation of three ships. The intervention involves the insertion of a section of about 26 meters, and the almost total renewal of the machinery and refitting of the engine rooms, public areas and cabins. Work on the third and final vessel will be completed in autumn 2020.

Equipment, Systems and Services

In the Equipment, Systems and Services segment, the Group has achieved important successes in the traditional naval reference market, such as the order to supply its German competitor Meyer Werft with stabilization systems and turbogenerators for heat recovery that will be installed on the new class of cruise ships under construction at the Finnish shipyard.
Alongside this market is the growing contribution of the business linked to the production of structural steel components for the infrastructure sector, such as the activities supporting the construction of the bridges over the Polcevera and Danube rivers.
The trend in demand for large metal carpentry is driven by the evolution of the infrastructure market, which to date includes numerous tenders for the construction of steel infrastructure for road, civil, port and energy uses.
Further opportunities for the Group may arise from the supply of infrastructure monitoring systems and participation in the investment plans of the Italian Port System Authorities aimed at carrying out maritime works.

RESEARCH AND INNOVATION

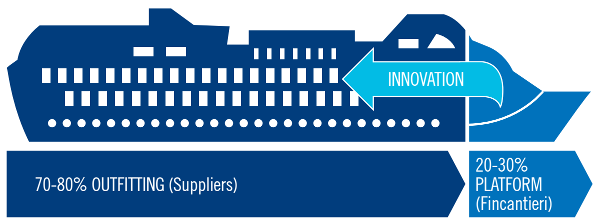
Fincantieri's main objective has always been to dominate, in its role as world leader, all the high value-added segments of the shipbuilding industry. The Group's competitive advantage, which lies in its high capacity to provide highly technological and customized solutions, is evident whenever the need to apply solid know-how in system integration emerges.
Fincantieri has repeatedly confirmed its position as one of the most competitive global players, thanks to its flexibility and ability to adapt to significant and cyclical changes in market needs. These fluctuations require a continuous process of change that generates product innovations, applicable to all types of ships, and process innovations, which are necessary in order to apply new technologies and recover productivity.
The Group aims to be proactive towards shipowners by always offering innovative solutions that anticipate future technological developments. The constant updating of produces and processes is one of the fundamental values of Fincantieri that have led to it being one of the most competitive players in its business globally. In this sense, the capacity to seize on the promising synergies in terms of innovation at international level characterizes the Group's actions and makes it gradually more integrated with and sensitive to market dynamics.

We are innovators

The Group is constantly engaged in industrial research, experimental development and process innovation in order to improve existing products, processes and services and to expand its knowledge base to support its entry into promising new market sectors worldwide.
Long-term activities are defined, in agreement with the business units and subsidiaries, starting from an analysis of the economic and technological megatrends that will be significant for the maritime segment over the next decade. An analysis of the policy documents produced by international organizations, research centres and, more generally, by our stakeholders, allows us to define the areas which have not yet been explored and where the Group's resources can be invested.
As regards the medium and short term, the Group's effort is focused on satisfying the requests it expects to receive in order to meet the needs of the end users of the product and those actually put forward by shipowners. In the first case, the Group is committed to off-the-shelf innovation, i.e. those activities that are not directly applicable to orders, but are strategic in anticipating the needs of the end customers for its product. The directions to be taken suggested by recent market surveys show the importance of focusing efforts on issues such as energy efficiency and reduction of operating costs, maximizing payload and at the same time perceived quality, and improving safety. In the shorter term, however, the focus is on developing and innovating technologies and applying them to each individual order. Timely fulfilment of the shipowner's requests often requires the development of technological solutions or the study of innovative materials and systems to be applied during the ship design phase.
Each year Fincantieri draws up a Research and Innovation Plan (R&I Plan), which is the tool used by the Group to effectively implement its strategy and the cornerstone of the other Research and Innovation processes. The annual redefinition of the projects is essential in order to maintain consistency between the activities carried out during the previous year, new corporate objectives and the market needs envisaged in the near future.

We cooperate in order to create value

In order to take full advantage of its Research and Innovation processes, in addition to making the most of its internal expertise, Fincantieri, aware of its role as an integrator, wholeheartedly adopts the open innovation paradigm, researching and proposing collaborations with partners operating upstream in their own value chain, or with other stakeholders working to innovate tools, products and services in the maritime field.



The Group often promotes long-term relationships through the creation of wide-ranging cooperative development programs. Aware of the significant boost that these can provide, the Group continuously aims to expand its partnership networks at local and international level, both within the projects it finances independently and by cooperating in the creation of consortia that respond to the innovation challenges raised by public actors, such as the Horizon 2020 programme.
In fully embracing the Open Innovation model, Fincantieri takes into account a wide range of stakeholders:

- Suppliers: these are involved in numerous projects, also thanks to the Innovation process that identifies partners with whom a common technological development strategy can be built;
- Network of universities and research institutions: the methods of cooperation range from joint participation in collaborative projects and direct collaboration on specific topics to developing innovative ideas to transfer to the product;
- Classification societies: these are constantly involved in the development of new prototypes in order to ensure product consistency and the appropriateness of production methods. In addition, the Group shares activities with the Classification Societies in various collaborative projects, also entering into specific agreements to facilitate Research and Innovation activities;
- Customers: the ability to forecast customer needs is a significant competitive advantage for the Group. Therefore, it is fundamentally important to always keep active all those activities aimed at identifying the technological priorities to be developed in the short, medium and long term;
- Trade associations and industry forums: represent an unmissable opportunity to exchange ideas and are often a starting point for cultivating numerous beneficial partnerships that consolidate a shared vision on the main Research and Innovation issues;
- Start-ups: constantly monitored, they often guarantee the first steps towards the industrialization of new technologies.

The Group strongly believes in the possibility of creating value in a collaborative way and, for this reason, has created a dense network of collaborations and participations in various industry round tables both in Italy and in the main countries where the Group operates.

A common strategy: from global to local level

In the context of the Group's collaborations, those activated to define its medium-long term vision and to jointly define the documents that set out the sector's priorities, at local, national and supranational level, are particularly important.
In addition to maintaining a large number of bilateral relationships with other companies in our sector, and with universities and research institutes, the Group is active in various associations and forums, with the aim of both contributing to the definition of sector roadmaps at a general level, and providing its contribution on individual technical or technological issues, including through the activation of pre-competitive research projects.
During 2019, Fincantieri actively participated in the work of European sectoral technology associations. One of the most important strategic partners of the European Commission is represented by the European Technology Platform WATERBORNE which Fincantieri is an active member of. The platform aims to maintain continuous dialogue between all stakeholders in the maritime, naval, port and logistics fields and blue growth operators (an expression that brings together various economic activities including, for example, fisheries, aquaculture and maritime tourism, maritime biotechnology, collection of renewable energy from oceans, mining from the ocean floor), through the consolidation of a shared consensus aimed at identifying European priorities for Research and Technological Innovation. The WATERBORNE platform, which updated its Strategic Research Agenda in 2019, played a key role in proposing the establishment of the co-Programmed European Partnership "Zero-emission waterborne transport" to be launched within the Horizon Europe programme to develop solutions to transform the waterborne transport sector into a zero-emission sector towards the year 2050, in line with the objectives of the European Green Deal.
Fincantieri has contributed to the policy papers of the industry associations Sea Europe and Hydrogen Europe. The former is the European association of shipyards and manufacturers of maritime systems, while the latter is the European association representing the industry and research for the development of hydrogen technologies and fuel cells. In particular, Hydrogen Europe, among its objectives, aims to support the launch of the Institutionalized European Partnership "Clean Hydrogen for Europe" in the Horizon Europe programme and to support the activities of the Fuel Cells and Hydrogen Joint Undertaking (FCH JU) of Horizon 2020.
At European level, the Group also cooperates with:

- EuroYards, the association of leading European manufacturers, where it actively contributes to the activities of the technical committee and the working group on product and process digitalization;
- the Cooperative Research Ships consortium, which focuses on the study of hydrodynamic, structural and general issues related to large ships interpreted both from an operational and a design point of view;
- European Council for Maritime Applied R&D (ECMAR), an industrial association that aims to develop a common strategy for European research in the maritime sector.

As part of its Italian activities, the Group contributed to the work of the Trasporti Italia 2020 and Blue Italian Growth National Technology Clusters (NTCs). During 2019, following a participatory process, both clusters published their action plans for the three-year period 2019-2021. Fincantieri actively contributed to the drafting of these plans, whose contents were transferred into the contribution that the two associations made to the National Research Programme (NRP) drafting committee.
At the Italian level, the Group also collaborates with AIRI, the Italian Association for Industrial Research, contributing to the definition of the technical analysis documents, which are often taken as a reference for evaluating actions that support innovation, which are activated by public administrations.
Over the year Fincantieri contributed, through its representatives in the Italian regional technological districts, to the analysis of the context and local application of the sector's development strategies, contributing, in particular, to the definition of intelligent development strategies (S3) of the regional territories in which the Company is located. The districts involved in cooperation relationships with the Group are:

- Friuli Venezia Giulia Maritime Technology Cluster (MareTC FVG)
- Liguria District for Marine Technology (DLTM)
- Liguria Technology District for Integrated Intelligent Systems (SIIT)
- Polymeric and Composite Materials and Structures Engineering District (IMAST)
- Sicily Technology District for Naval Transport (NAVTEC)

Norway: the main partnerships

The Group benefits from the relationships that the subsidiary VARD maintains with the Norwegian academic and research world. Partnerships are active with the NTNU - the Norwegian University of Science and Technology - and the SINTEF - The Foundation for Industrial and Technical Research. The latter currently represents one of the main independent research centres in northern Europe.
This close cooperation has led to the establishment of two centres for research-based Innovation (SFI):

- Smart Marine SFI: the centre's main focus is to increase the potential of the Norwegian maritime sector within the sustainable waterborne transport segment;
- Move SFI: the centre's activities are focused on increasing the value of maritime operations by developing IT knowledge, methods and tools.

In addition, VARD has recently joined the Joint Industry Project (JIP), the Open Simulation Platform, with the aim of creating an open source digital platform to be used during the development of new ships.

United States: the National Shipbuilding Research Program

The American subsidiary Marinette Marine actively collaborates with research centres and universities, through the National Shipbuilding Research Program (NSRP) funded by the US Government in order to carry out research and innovation initiatives. The NSRP project, founded in collaboration with U.S. Shipyards, studies and develops new processes and designs to improve ship production in the United States and make it more efficient. The activities carried out in this context range from welding techniques to "design for maintenance" concepts, via the study of strategies to reduce ship weight and the implementation of innovative coating solutions.

Our main projects

Over 90 Research and Innovation projects were launched during 2019. The Group

FINCANTIERI GROUP / REPORT ON OPERATIONS

funded them through its own resources and through Research and Innovation programmes funded at European, national and regional level. Some of the projects are carried out through close cooperation with universities and research institutes, through the awarding of specific assignments or the funding of doctoral fellowships, research grants, or positions in partner universities. All the projects can be classified within 5 development trajectories, which are Fincantieri's vision for the sector.

Green Ship

For the past several years, the concept of "greening" has established itself as one of the guidelines for innovation processes and has acquired fundamental importance in the eyes of the public. The European Union, with the recent European Green Deal, the International Maritime Organization (IMO) and the Cruise Line International Association (CLIA), have defined precise objectives to reduce polluting emissions (in particular CO_2) for the next decades.
Fincantieri considers Green Ship as a milestone for its vision and the activities carried out in 2019 confirm this commitment. Recent contracts, whether they are related to the sectors of new builds or refitting, feature the use of advanced technologies, such as Liquefied Natural gas (LNG), batteries, modern pollutant reducing and energy saving systems.
Fincantieri applies a holistic approach in design and construction, integrating the best of all on-board systems, pursuing continuous improvement in energy efficiency and supporting the introduction of new green fuels, technologies for de-carbonization, including fuel cells, as well as the study of high-performance materials.

Smart Ship and Autonomous Ship

In the context of the development model proposed by the Industry 4.0 paradigm, the enhancement of IoT (Internet of Things) and smart devices has taken on fundamental importance. These are pervasive across all industrial sectors and ships are not exempt from this "intelligent" revolution.
The improvement of monitoring systems, support systems for navigation and on-board activities gives value added to the whole ship product and helps to improve operational safety.
Lastly, one of the most interesting challenges for the shipbuilding industry is to develop autonomous ships for use in any operational scenario, including in busy port areas. These concepts also have important repercussions on maintenance and after-sales activities, as well as strong implications on cyber security aspects. These aspects of the ship product are studied and developed both in specifically dedicated projects (e.g. ECHO) and to assess the impacts of projects activated with the aim of increasing digital integration and on-board autonomy (e.g. STESS). Great importance is given to the modelling of possible cyber attack risks and the countermeasures to be taken both in system terms and physically to prevent these eventualities.

Smart Yard

Fincantieri has set itself several development objectives as regards safety and productivity at work with a view to improving all the design and construction phases in the shipyard. The introduction and application of innovative computer models, logistics and quality control procedures in line with Industry 4.0 guidelines will drive the evolution of the next shipyards. This area has also given rise to the studies and developments related to the cyber security aspects of production processes, with particular emphasis on the security of Information Technology (IT) infrastructures and the "OT" infrastructures (linked to the world of Operational Technology such as, for example, the networks that control automatic machines) at the shipyards, with a pilot project started as part of the production process innovation project at the Marghera site.
In the years to come, the aim will be to follow the ship throughout its entire life cycle, including by trying to facilitate the last phase - decommissioning - by studying new welding and joining procedures.

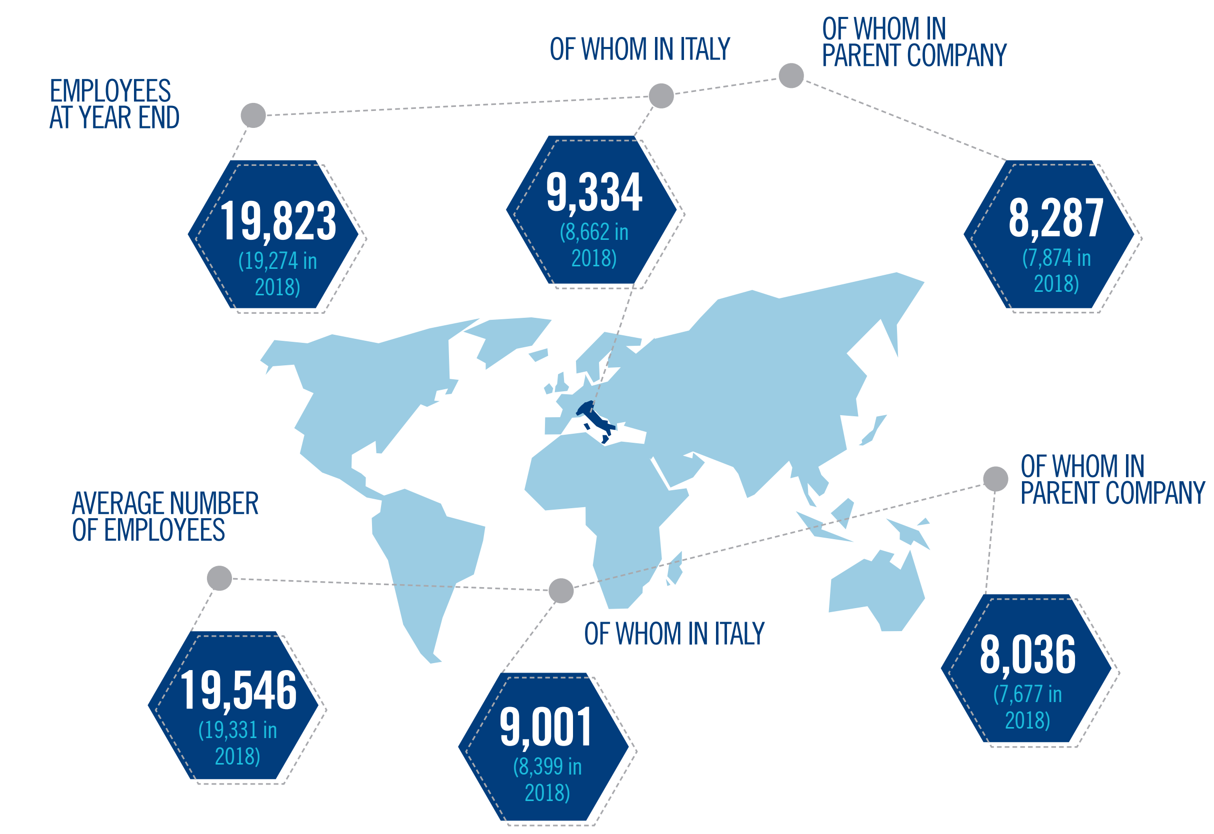
Smart Offshore Infrastructure

An important part of Fincantieri's business is the offshore market. Current trends in this sector are driven by the need to more efficiently harness the maritime environment through the use of structures aimed at work and life at sea as well as clean energy production. The displacement of offshore activities to ever remote areas will require the study of support vehicles for transferring people and materials to and from land.

OUR PEOPLE

Developing a globally shared vision, spreading a common culture and promoting an increasingly motivating work environment that responds quickly to business needs are the challenges the Group set itself in 2019. The constant development and enhancement of people are the strategic levers that increase their engagement in the Company. The objective, through the implementation of a common "People Strategy" among the Group companies, is to aim for excellence by increasing people's well-being and their productivity.

HEADCOUNT



The Group's headcount in Italy recorded a net increase of 550 resources, not considering the new companies included in the Group's consolidation (122 resources), as the balance of the 787 people hired, net of leavers.
In an increasingly complex labour market, where there is a growing professional mismatch between supply and demand for profiles with technical and technological skills, Fincantieri works constantly to make selection processes better and more effective and to enhance its recruiting and employer branding policies and strategies.
The employer branding strategies are translated into an increasingly active presence on social networks and above all through a synergistic network of education and training actors, which see the involvement of secondary schools, Istituti Tecnici Superiori Foundations (ITS - Higher Technical Colleges), universities and business schools, with the aim of promoting the development of knowledge and skills sought and applied in the Company.
During 2019 Fincantieri designed a new course with the Merchant Marine Academy for senior technicians for the supervision and installation of on-board systems.
Further initiatives are being launched which will affect territories with a lower rate of development.
In order to meet the need for new professional profiles oriented towards the shipbuilding industry and to facilitate the integration of young people into the world of work while promoting the development of the territory and encouraging employment policies, Fincantieri has intensified its collaboration with technical colleges and vocational schools, such as the IFTS course for ship designers in Monfalcone, the course for Process Technician for Shipbuilding in Genoa and the two editions of the "Ship Master" courses in La Spezia and Sestri Levante.
The same attention paid to the national context is also paid to the international context, where collaborations have been set up with all the main universities, in particular for engineering disciplines, both in the territories where we operate with our sites as well as in locations where the Company is not present.
In 2019 Fincantieri was awarded the Universum prize as Most Attractive Employer among companies in the Industrial Engineering and Manufacturing sector according to STEM (Science, Technology, Engineering & Mathematics) student rankings of the leading Italian universities. In 2019, Fincantieri also won the Universum prize as Best Employer for STEM professionals, professionals with up to five years' experience, among companies in the Industrial Engineering sector.

Training and development

For Fincantieri, the training and development of people are the two fundamental strategic levers of the Talent Management process, since, by facilitating growth from within, we make it possible for individuals to increase their skills, enhance their potential and professionalism and encourage their motivation and involvement.
Also during 2019 Fincantieri continued its policy of investing in training programmes aimed at improving the technical and professional know-how of its resources, ensuring effective monitoring of roles and encouraging the dissemination of cross-functional skills.
The assessment processes adopted by Fincantieri are based on the Company Skills Model, which aims to enhance and encourage consistent behaviour at all levels of the organization and to develop appropriate skills to face future challenges. They are structured in order to guarantee the most complete, objective and analytical vision of the various aspects being assessed (Performance Assessment, Assessment of Potential and 360° Assessment, a tool designed to assess the typical skills of team managers).
During 2019, people review activities, which are an active management tool used by the HR Department and managers to develop employees, played a key role in enhancing human capital and defining professional growth paths and succession plans. People review activities are launched from a synergistic work carried out every six months by the HR Department and by the business line and allow the population to be mapped using the data related to the performance appraisal, potential appraisal and the experience gained within the Company in a systematic and structured way. The strategic output that emerges from this mapping is the identification of

high potential, namely those resources with greater potential and usefulness in the Company, on which to invest so that in the future they can play key roles in driving the business. The ultimate goal of people review meetings is to plan the development actions necessary to accompany the growth of talent through a career path, with structured job rotations that provide for both horizontal and vertical growth, national and international mobility activities, training and mentoring that support the development of interpersonal skills and encourage the creation of a professional network, even outside the area in which the talent works.
Once a year, in order to ensure effective oversight of key positions and allow for structured and organic reflection on the Group's managerial assets, succession plans for top management are updated to guarantee and safeguard continuity, stability and oversight of the business.
Coaching has been developed in a more structured and widespread way to enhance management effectiveness. This is a voluntary development tool aimed at facilitating and supporting resources in becoming aware of themselves, their possibilities and potential, allowing them to plan development actions aimed at strengthening and consolidating their managerial skills.

Welfare model

Fincantieri has implemented a welfare model that is able to positively affect the welfare of its resources and, at the same time, capture the most modern dynamics of the labour market and the business.
The welfare tools, defined with the corporate agreement in 2016, are aimed at employees in general of FINCANTIERI S.p.A., including part-time and fixed term employees, and are also recognized for the employees of Italian subsidiaries and/or associates falling within the scope of the supplementary labour agreement.
Within the welfare system, the Social Bonus is particularly important because of its characteristics. The bonus is paid annually and exclusively in welfare services and any unused bonus amounts are automatically allocated to the individual employee's supplementary pension fund. To strengthen the connection between the achievement of production objectives and consolidation of the overall welfare system, employees who decide to convert variable bonuses into welfare are paid a further increase of 10% on the value converted. In 2019, 25% of the overall performance bonus was converted into welfare services. For an employee to benefit from company welfare, we have a dedicated website through which the employee can access a wide range of goods and services. The most requested services were those intended for the family, in particular for the education of children and assistance to family members, together with welfare vouchers, which can be spent in establishments with which the employees themselves have often asked the Company to arrange special prices. The supplementary pension and health programme, which are complementary to the measures already defined in terms of supplementary pensions and healthcare, the National Collective Bargaining Agreement (CCNL) and the company's supplementary labour agreement, were also highly appreciated.
The portal also provides other categories of services such as training courses, travel and holidays, mortgage repayments, leisure, sport and wellness.
As regards welfare policies, particular attention has been paid to public transport and mobility issues, with a view to promoting sustainability. The employee can request the total or partial reimbursement of the ticket, such as the season ticket for the bus or train, for themselves and/or for their dependent family members.
Confirming the validity of the welfare model it has adopted, Fincantieri - having previously won the Welfare Awards 2018 for the best plan in application of the National Collective Bargaining Agreement for Steelworkers and for welfare policies aimed at blue collar employees - won the Welfare Award for the Best Welfare Network Plan 2019 due to the territorial extension of the welfare system.
During 2019 the promotion campaign for the use of corporate car pooling (namely two or more people sharing a private car for the commute to and from work) was implemented and provided for incentives and the recognition of bonuses.
In order to respond to the growing need for work-life balance, we continued to test smart working for particular personal situations.
The Company's focus on work-life balance, which is already included in the National Collective Bargaining Agreement for steelworkers, where a worker dealing with serious family situations can take a period of leave of absence of up to two years, has also been implemented indirectly with the involvement of company clubs, through initiatives that meet the employees' needs: special arrangements with day care centres, seaside or mountain resorts during the summer, daytime summer camps and after-school activities.
With regard to supplementary health care, since January 2018 the Company has been a member of the Health Fund for Steelworkers, called "MètaSalute", with a supplementary health care plan for employees and dependent family members, also covered free of charge. Health services are provided both directly, through the facilities contracted by the operator and in the form of reimbursement.
Fincantieri Marine Group provides benefits to all employees working for at least 30 hours a week. Benefits include subscription to the Group Health Medical Plan, which covers various services: a medical coverage plan, a dental coverage plan and vision coverage plan for eye health. The costs are borne partly by the Company and partly by the worker. Additional benefits are available that are not included in the above plans, such as the on-site clinic, vacation and holiday pay, the policy on short/long term disability, life insurance for accidental death & dismemberment, the retirement plan and the employee assistance programme.
The VARD Group provides its employees, using different methods depending on the location, with medical assistance, internal catering services, food cards, training incentives and support for transport to and from home.

Industrial relations

Industrial relations in Fincantieri are characterized by a participatory model that is developed through the activities of various commissions defined by the 2016 supplementary labour agreement, which in some cases, in addition to trade unions, include workers.
A strategically important body is the Advisory Committee, composed of 12 members, 6 of which are company representatives and 6 trade unions, which meets annually for information and consultation between the Parties on issues such as market scenarios and competitive positioning, economic performance, alliances and strategic partnerships, business strategies, technological innovations, safety at work, training and retraining, relations with educational institutions and/or universities, and employment trends.
The Committee also meets when there are

changes in the company and ownership structure, significant organizational changes, considerable changes in labour policy, restructuring and/or reorganization projects and restructuring and development programmes.
The supplementary agreement also governs the operation of the Joint National Committee on Safety at Work and the Joint National Training Committee. Composed of 3 company representatives and 3 workers' representatives, these joint committees are responsible for analysing the characteristics and trends of the issues within internal evolution, verifying the consistency of the initiatives implemented, proposing and evaluating new general or specialized initiatives, and evaluating and approving intervention plans.
Each company site has a Bilateral Joint Technical Body and a Committee on Safety and Environment. Their purpose is, by systematically involving all resources, to increase the motivation and participation of employees in the change and innovation processes, combining the necessary increases in efficiency and productivity with the improvement of working conditions and the environment.
With regard to the subjective right to continuous training, Fincantieri operates in line with the provisions of the National Collective Bargaining Agreement signed in 2016, guaranteeing the possibility of participating, either directly or at the initiative of the Company, in training courses lasting at least 24 hours per person during the three years of the National Collective Bargaining Agreement. This approach has provided yet more impetus to the training process, which

is already effectively monitored, helping to further awareness of the need for companies and workers to invest in the continuous updating of skills and knowledge, identified as strategic factors when responding to technological, organizational and market changes.
In relation to the growing process of internationalization and with a view to encouraging the full involvement of Group workers, Fincantieri, together with the trade unions, is committed to setting up a special working group for the establishment of the European Works Council (EWC), the purpose of which will be to inform and consult the workers of EU-wide companies.
The current company supplementary labour agreement will also be fully effective in 2020, since the trade union agreement providing for its extension was signed in December 2019.
The VARD Group has established a model of industrial relations that is strongly oriented towards dialogue with trade unions in order to identify and provide impetus for the changes needed to ensure a stable and profitable future for the Company.
During 2019, especially in the Norwegian shipyards, agreements and protocols were signed to define phases, rules and timing for the gradual cessation of VARD activities at the Aukra and Brevik shipyards and to manage the personnel concerned through redeployments or support in the search for new opportunities. Trade union agreements have been signed at the VARD shipyards in Braila and Tulcea in Romania to improve productivity (reorganization of work programmes, shift changes, breaks), with the simultaneous introduction, in terms of pay, of a bonus system focused on results.

FINCANTIERI GROUP / REPORT ON OPERATIONS

COMMITMENT TO HEALTH AND SAFETY

Safety at work, workers' health, the maintenance and improvement of work environments have always been the main drivers of the Company's policies, in a vision that considers safety a strategic and development factor for the Company.
The continued implementation of tools associated with the certification of the company's systems for managing health and safety at work, according to the requirements of OHSAS 18001/ISO 45001, has resulted in the broadening of the work population involved, facilitating dissemination of corporate culture growth paths.
This result is monitored through the systematic implementation of internal audits connected to the certification of management systems and has been further supported by the various actions implemented as part of the Towards Zero Accidents project.

Towards zero accidents

For several years the Towards Zero Accidents project has involved all the resources concerned with the Company's production process within a structured plan of initiatives and has continued along its path of activities aimed at employees and suppliers and at contractors' employees.
To consolidate good practices and the constant monitoring of the production dynamics, careful attention is paid to coordination meetings on safety and the environment which, scheduled at least every two weeks, are carried out directly in the production areas and envisage the participation of all the supervisors involved in processing and the workers' safety representatives.
Meetings of the Quality and Safety Committees are held periodically in each production unit. These committees, composed of the site Management and the people reporting to management, including the quality, health, safety and environment managers, have the aim of supervising and monitoring production processes during their constant evolution and within their different complexities. Within the same framework, workers' requests and any critical elements that may have emerged during joint inspections of the operational areas or within the Commission for Safety and Environment have a prompt and timely response.
Similarly, in the United States, at the Fincantieri Marine Group, monthly meetings are held between health & safety and environment managers and union representatives to analyse and share the results of accident analyses, performance indicators and the main updates to the safety management system.
The trend in injury data and rates for employees and contractors is constantly monitored, both at company and site level. This trend is communicated internally on a monthly basis, through a special report, to Top Management, all employers and all the health and safety managers. Similarly, with the aim of involving and informing the entire company audience with a view to prevention, the documented analyses of accidents and near misses at individual shipyards are systematically shared in a particularly detailed format, which is sent electronically. The same data, together with other health, safety and environmental (HSE) issues, are compared and examined at quarterly meetings involving all site managers on health and safety at work issues. In the same context, the corporate HR manager coordinates work to share best practices, raise issues of common interest and identify improvement proposals on which to involve and direct the Group's activities.

Particular importance is attached, within the mechanisms governing variable pay, to objectives related to health and safety at work and environmental issues. The company's best performance and sustainability improvement objectives are benchmarks used to monitor and stimulate the performance result and determine the related economic impact.
Evidence of work-related stress risk has been the subject of targeted pathways involving employees and workers' safety representatives in identifying possible sources of risk. Surveys and tests carried out individually and for homogeneous groups allow the Company to acquire results and elements which are used to define, where necessary, appropriate initiatives with a view to reducing risk and promoting personal well-being (training, organizational measures, etc.). The risk of work-related stress, together with all the specific risks present in the workplace, is addressed in the safety courses for employees regardless of their position. The entire framework relating to the risk assessment process, in particular for risks related to health and safety at work, is incorporated into specific company guidelines and subsequent operating procedures.
The VARD subsidiary, similarly to Towards Zero Accidents, continues to implement its Vision Zero project, the results of which confirm a positive trend.
Further initiatives have been implemented with the aim of preventing any type of accident to people and the environment:

- using the Safety Observation tool to report any anomalies found;
- reporting health and safety indicators at the monthly management meetings;
- organizing the prevention week to reduce internal accidents;
- monthly discussions on health and safety (compulsory under Brazilian law);
- election of an internal accident prevention commission;
- the internal distribution, based on the Group's guidelines, of a booklet with the ten golden rules for health and safety at work.

The US subsidiaries have maintained a high commitment to safety and the environment and have received numerous awards for excellence. In 2019, Fincantieri Marinette Marine won the Safety Excellence Award and the Safety Improvement Award, both recognized by the Shipbuilders Council of America. The National Safety Council has also certified Fincantieri Marinette Marine for achieving one million consecutive hours worked without injury or illness.
Fincantieri Ace Marine has developed and launched the SLAM (Stop, Look, Assess, Manage) programme that involves the employees and aims to promote a pro-active vision of health and safety in the workplace.

Together in safety

The multimedia support Together in Safety is available in all Italian shipyards to protect all the resources involved in the production process and promote correct behaviour, including from an environmental perspective. This is a training video, with a duration of over three hours, aimed at employees of subcontractors (a user catchment of around 30,000 people), and it must be watched in the classroom when people enter the Group's production sites for the first time.
The video is available in the 10 languages most used in Fincantieri's shipyards and customized to the logistics of each site in Italy. It provides information on each of the production units and on the work risks that characterize shipbuilding.
In Italy, the Active Safety project continues, on a regular basis, to provide training and information to all workers (direct employees and employees of contractors) present at individual shipyards. During working hours and directly at the workplace, the individual supervisors explain the subject matter to their staff, who are given a leaflet. In 2019, 9 different editions were carried out with a duration of approximately 30 minutes each, which is in addition to the activities required by law.

Memorandum of understanding with INAIL

In April 2019, the National Institute for Insurance against Accidents at Work (INAIL) and Fincantieri signed a memorandum of understanding aimed at developing a safety at work culture and at implementing activities and projects with the goal of systematically reducing accidents and occupational diseases. The MoU, which follows on from long-term cooperation, determines the scope and implementation methodologies of activities aimed at protecting workers' health and safety. In particular:

- production process analysis, with respect to the risks related to the shipbuilding industry and in particular those arising from interferences between the activities of internal and external resources;
- monitoring of the health and safety management system in place for contract work in the shipbuilding industry and its possible evolution;
- evolution analysis of accidents in the represented sectors, supplemented with a comparison of the data collected at European level;
- analysis of the current near miss model mapping (i.e. events which potentially can cause accidents) and its possible evolution;
- identification and implementation of new training and information initiatives aimed at promoting a culture of prevention, and innovative communication tools to strengthen workers' awareness of the risks in the production process and the appropriate safety measures.

Supplier evaluation

The supplier evaluation process has continued to play a particularly significant role as regards safety, environmental and human rights issues. Contractors are already subject to evaluation from a financial, quality, contractual and production perspective and are assessed using a predefined format and scorecards focused on health, safety and environmental issues. The assessments by the various shipyards have led to the calculation of the overall performances of the companies and are subject to permanent monitoring within Supplier Oversight.
Alongside this internal evaluation process, an additional second party audit programme was launched in 2019, to be carried out at suppliers' production sites with a focus on respect for human rights, the environment and health and safety at work.

Security

Owing to the increasingly frequent and widespread presence of employees travelling or on secondment abroad, the Travel Security programme has developed ongoing mapping of risks in foreign countries to guarantee the security of travelling employees and the sustainability of the locations associated with business operations.

OHSAS 18001/ISO 45001 and SA 8000 certifications

During 2019, we continued implementing and consolidating the occupational health and safety management systems in our operating units, with the aim of supporting the implementation of the policy adopted by the Company. In 2019, eight Italian sites completed the migration process to the new ISO 45001 standard and we plan to complete the transition of the remainder by 2020. In parallel, the surveillance activity by the accredited certification body to maintain the existing management systems continues. The Palermo shipyard has achieved the first OHSAS 18001 certification in accordance with the requirements of the reference standard while the subsidiary Isotta Fraschini Motori has achieved the first ISO 45001 certification in accordance with the relevant requirements. The US site of Fincantieri Marinette Marine, already previously certified in compliance with OHSAS 18001, has planned to migrate its health and safety at work management system to the ISO 45001 standard during 2020.
The VARD group maintained OHSAS 18001 certification for the Romanian Braila and Tulcea shipyards, as well as the Vietnamese Vung Tau shipyard. All VARD shipyards are aligned with SA 8000 standards, which are based on the International Labour Organization (ILO) conventions and the Universal Declaration of Human Rights (Vung Tau is also certified).

FINCANTIERI GROUP / REPORT ON OPERATIONS

ENVIRONMENTAL POLICY

Fincantieri is aware that its level of responsibility is judged by its ability to combine, in its work, professionalism and quality with strict respect for laws and consideration for the needs and expectations of the community in relation to the protection of public goods. The Group wants to represent a model of excellence also in terms of maximum environmental protection and we see the environmental management system as the tool for implementing and monitoring the action taken to carry out the commitments made.
As far as environmental protection is concerned, the commitments undertaken in the new Environment, Health and Safety Policy are to:

- assess the risks and environmental impact of its activities and manage the environmental aspects using the principles of precaution and prevention;
- promote the use of the best available technologies and the use of products with a lower environmental impact;
- implement improvement plans aimed at containing and reducing its emissions to air, water and soil, the continuous efficiency of the Company's energy performance including through the use of energy from renewable sources, and the minimization and proper management of waste;
- safeguard the natural value and biodiversity of the territories affected by the presence of its sites by implementing appropriate environmental measures and protections;
- design and develop eco-sustainable products.

The Group is committed to the implementation and maintenance of an Environmental Management System at the production sites and obtaining ISO 14001 certification for most of them. Environmental audits are also carried out regularly at these sites by the specific internal structures and all the reports of any environmental accidents are systematically collected and managed.
Fincantieri asks its suppliers to share its approach to sustainability in order to achieve one of its most important corporate objectives: having a responsible and sustainable supply chain. For this reason it has adopted the Suppliers' Code of Ethics that includes among its pillars the protection of and respect for the environment.
The Group also believes in the value of transparency in reporting and is leading change in this direction. As proof of this, in 2016 it joined the CDP Climate Change Programme, a prestigious British organization whose goal is to improve the management of environmental risks by leveraging information transparency. In 2019, the Fincantieri Group obtained the B rating, on a scale ranging from the minimum D to the maximum A, which testifies to the effectiveness of the actions it has taken in the fight against climate change.

DATA AND INFORMATION PROTECTION

The Company's focus on **cyber security** has gradually intensified in response to the ever-increasing complexity and frequency of cyber attacks carried out against companies with national and international strategic importance. The sophistication of cyber threats - made possible by the operation of consolidated international groups, some of which supported by the governments of the countries to which they belong - requires the constant adjustment of the company's defences and processes for protecting IT assets, as an additional element to protect the Company's industrial know-how and market competitiveness.
For this reason, in 2019 the Group further strengthened the Cyber Security function, activating a pervasive multi-year program focused on managing and mitigating cyber risks, which develops far-reaching project initiatives on the company's technological infrastructure, including:

- creation of a program to protect the industrial networks supporting ship production on 4 pilot shipyards (Monfalcone, Marghera, Ancona and Riva Trigoso) to allow the monitoring, protection and management of field equipment;
- development of a model to manage cyber security aspects related to product development processes;
- definition of the group business model with regard to the Information Security Policy Architecture;
- implementation of tools based on Artificial Intelligence to identify a standard behavioural model capable of highlighting any anomalies in user actions;
- central monitoring of core corporate services;
- lifecycle management of cyber security incidents;
- conducting periodic IT security assessments aimed at identifying and remedying any gaps;
- providing awareness campaigns to employees, aimed at improving awareness of cyber risks and shedding light on the most widespread attack techniques (e.g. social engineering) and the organizational and behavioural methods for neutralizing them;
- managing cyber risks within a more general framework of operational risks that may negatively impact on the Company's business and image.

The Group is aware of its social responsibilities and in the light of the full transposition of the principles laid down to protect personal data, it has launched a process to comply with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (the GDPR), which became fully applicable on 25 May 2018. At the end of this process, the Company adopted a privacy management system, whose founding principles are contained in the Policy on General Principles of the Privacy Management System (**Privacy Policy**) which establishes, among other things, the main processes needed to ensure the protections envisaged by the legislation. With this policy Fincantieri undertakes to establish and maintain over time a control model aimed at protecting the personal data collected and processed as part of the operational processes of its business, promoting the development of a pervasive privacy culture at Group level. With this in mind, in addition to the dissemination of privacy statements to the data subjects and instructions to personnel authorized to process personal data, Fincantieri has

carried out a pervasive training campaign that reached the employees of the Parent Company and was extended to the Italian subsidiaries.
As regards the security measures to be implemented to guarantee and protect data, the ISO/IEC 27001:2013 and ISO 9001:2015 certifications, which represent deeper integration with the information technology required by the personal data protection obligations, were confirmed again in 2019, confirming compliance with the level of reliability required by international standards.
With regard to foreign subsidiaries, the VARD group, complying with the provisions of the GDPR, has adopted the following line of action: implementing an overall mapping of processes that involve personal data, implementing the privacy policy for employees, limiting access to data in compliance with regulatory requirements, carrying out the related training, sharing the mapping results with the shipyards and offices in the various territories so that it can be implemented according to local characteristics.
Fincantieri Marine Group, complying in particular with the provisions of the Health Insurance Portability and Accountability Act (HIPAA), has prepared a detailed document on the protection of employees' medical data, providing training to those who have access to such information.

ENTERPRISE RISK MANAGEMENT

The Fincantieri Group is exposed in the normal course of its business activities to various financial and non-financial risk factors, which, if they should materialize, could have an impact on the results of operations and financial condition of the Group.

1 Risks related to operational complexity

DESCRIPTION OF RISK	IMPACT	MITIGATION
Given the operational complexity stemming not only from the inherent nature of shipbuilding but also from the Group's geographical and product diversification and acquisition-led growth, the Group is exposed to the risk of: • not guaranteeing adequate control of project management activities; • not adequately managing the operational, logistical and organizational complexity that characterizes the Group; • not correctly representing the operational management events and phenomena in the financial reports; • overestimating the synergies arising from acquisition operations or suffering the effects of slow and/or weak integration; • forming alliances, joint ventures or other relationships with counterparties that could negatively affect the ability to compete; • not adequately managing the complexity arising from its product diversification; • failing to efficiently distribute workloads according to production capacity (plant and labour or that excess capacity might impede the achievement of competitive margins; • not meeting market demand due to its own or its suppliers' insufficient production capacity.	If the Group was unable to implement adequate project management activities, with sufficient or effective procedures and actions to ensure control of the proper completion and efficiency of its shipbuilding processes and the proper representation of these in its reporting, or if it was unable to adequately manage the Group synergies, alliances, joint ventures or other relationships with counterparties and the complexity arising from its product diversification or if it failed to efficiently distribute workloads according to production capacity (plant and labour) available on each occasion at the different production facilities, revenues and profitability might decline, with possible negative effects on its results of operations and financial condition.	To manage processes of such complexity, the Group implements procedures and work plans designed to manage and monitor the implementation of each project throughout its duration. Constant dialogue channels are established between the Group entities in order to safeguard the integration processes; occasionally Parent Company resources are included. In addition, the Group has adopted a flexible production structure in order to respond efficiently to fluctuations in vessel demand in the various business areas. This flexible approach allows the Group to overcome capacity constraints at individual shipyards and to work on more than one contract at the same time while ensuring that delivery dates are met. The Group is implementing actions aimed at improving the production and design processes in order to strengthen competitiveness and increase productivity.

2 Risks related to nature of the market

DESCRIPTION OF RISK	IMPACT	MITIGATION
The shipbuilding market in general is historically characterized by cycles, sensitive to trends in the industries served. The Group's offshore and cruise clients base their investment plans on demand by their own clientele; in the case of offshore, the main influence is energy demand and oil price forecasts, which in turn drive investment in exploration and production, while the main influences on the cruise industry are trends in the leisure market. In the naval business, the demand for new ships is heavily dependent on governments' defence spending policies.	Postponement of fleet renewal programs or other events affecting the order backlog with the Fincantieri Group's principal cruise ship client could impact capacity utilization and business profitability; similarly a downturn in the offshore market could lead, as has already happened, to a reduction in the level of orders, in this segment, for the subsidiary VARD, as well as the risk of cancellation or postponement of existing orders. Equally, the availability of resources earmarked by the State for defence spending on fleet modernization programs is a variable that could influence the Group's results of operations and financial condition.	In order to mitigate the impact of the shipbuilding market cycle, the Group has pursued a diversification strategy in recent years, expanding its business both in terms of products and geographical coverage. Since 2005 the Group has expanded into the businesses of offshore, mega yachts, marine systems and equipment, repairs, refitting and after-sales service. In parallel, the Group has expanded its business nationally and internationally, through acquisitions or the incorporation of new companies dedicated to specific businesses, such as the manufacture of steel products and automation systems. Given the current downturn in the offshore market, the subsidiary VARD has successfully pursued a strategy of diversifying into new market segments, such as expedition cruise ships and specialized fishing vessels, with the intent of reducing its exposure to the cyclical nature of the offshore Oil & Gas industry.

3 Risks related to maintenance of competitiveness in core markets

DESCRIPTION OF RISK	IMPACT	MITIGATION
The production of standard merchant vessels is now dominated by Asian shipyards, meaning that competitiveness can only be maintained by specializing in high value-added markets. As far as civilian vessels are concerned, the Parent Company has been focusing for several years on cruise ships, a business in which it has a long track record; following the acquisition of VARD, it has extended this focus to the production of offshore support vessels and specific segments such as fishing and aquaculture. Additional factors that may affect competitiveness are the risk that due attention is not given to client needs, or that standards of quality and product safety are not in line with market demands and new regulations. Moreover, aggressive commercial policies, development of new products and new technologies, or increases in production capacity by competitors may lead to increased price competition, consequently impacting the required level of competitiveness.	Inattentive monitoring of the Group's markets and slow responses to the challenges posed by competitors and client needs may lead to a reduction in competitiveness, with an associated impact on production volumes, and/or less remunerative pricing, resulting in a drop in profit margins.	The Group endeavours to maintain competitive position in its business areas by ensuring a high quality, innovative product, and by seeking optimal costing as well as flexible technical and financial solutions in order to be able to propose more attractive offers than the competition. In parallel with the commercial initiatives to penetrate new market segments, the subsidiary VARD has developed a series of new ship projects, exploiting not only its own engineering and design expertise acquired in the offshore sector but also the know-how of the Fincantieri Group.

DESCRIPTION OF RISK	IMPACT	MITIGATION
The difficult political and economic context and worsening regulatory environment of countries in which the Group operates may adversely impact operations and future cash flows. In addition, the pursuit of business opportunities in emerging markets, particularly in the defence sector, leads to increased exposure to country risk and/or risk of international bribery and corruption.	Situations involving country risk may have negative effects on the Group's results of operations and financial condition, with the loss of clients, profits and competitive advantage and, in the case of lawsuits and sanctions, on its reputation.	In pursuing business opportunities in emerging markets, the Group safeguards itself by favouring commercial prospects that are supported by inter-governmental agreements or other forms of cooperation between States, as well as by establishing, within its own organization, appropriate safeguards to monitor the processes at risk.

4 Risks related to contract management

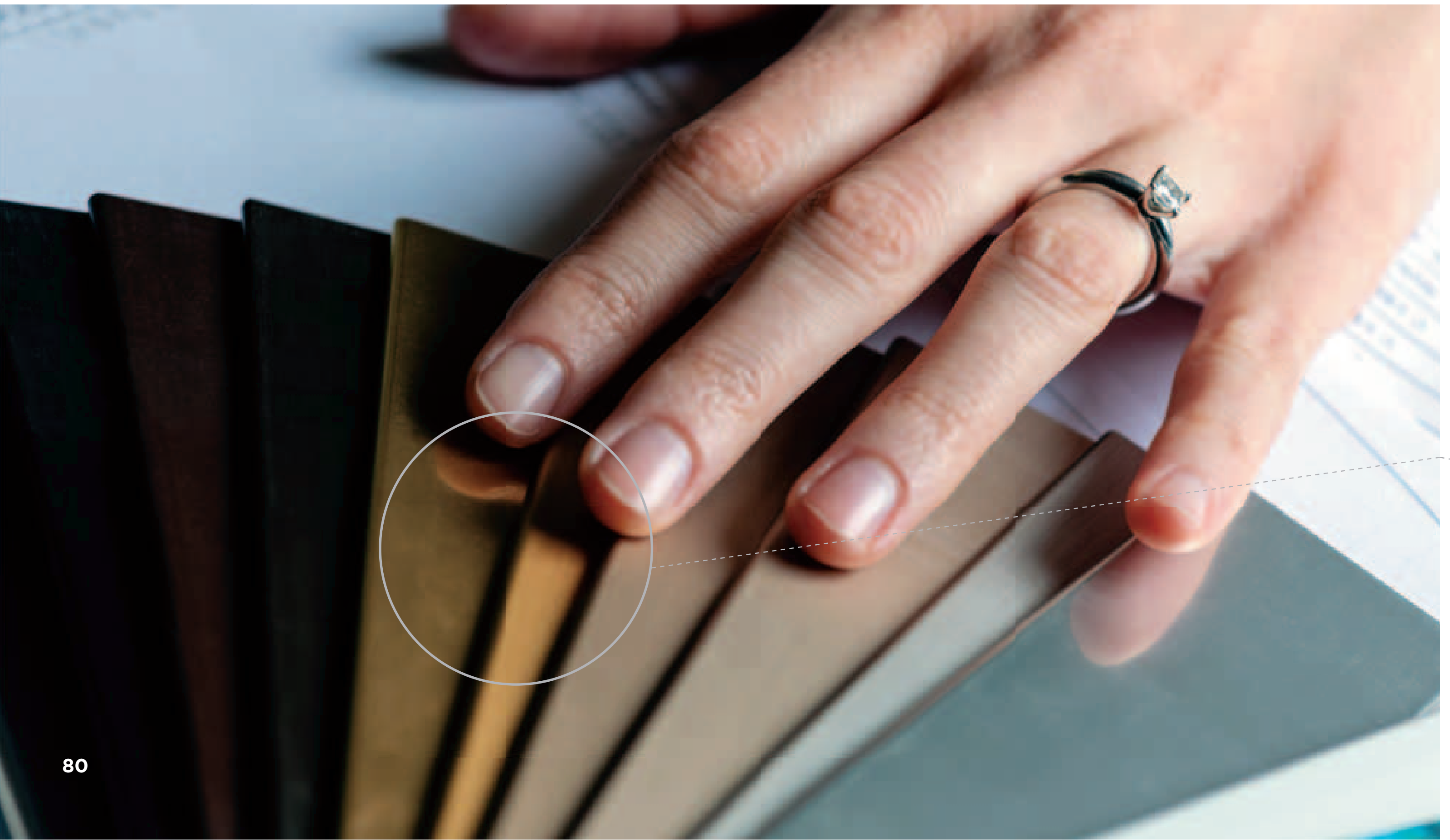
DESCRIPTION OF RISK	IMPACT	MITIGATION
The shipbuilding contracts managed by the Group are mostly multi-year contracts for a fixed consideration, any change in which must be agreed with the client. Contract pricing must necessarily involve careful evaluation of the costs of raw materials, machinery, components, sub-contracts and all other construction-related costs (including personnel and overheads); this process is more complicated in the case of prototype or particularly complex ships.	Cost overruns not envisaged at the pre-contractual stage and not covered by a parallel increase in price can lead to a reduction in margins on the contracts concerned.	The Group takes into consideration expected increases in the components of contract costs when determining the offer price. In addition, at the time of signing the contract, fixed-price purchase options will already have been defined for some of the vessel's principal components.

DESCRIPTION OF RISK	IMPACT	MITIGATION
Many factors can influence production schedules, as well as capacity utilization, and so impact agreed vessel delivery dates with possible penalties payable by the Group. These factors include, inter alia, strikes, poor industrial productivity, inadequate logistics and warehouse management, unexpected problems during design, engineering and production, events linked to adverse weather conditions, design changes or problems in procuring key supplies.	When the causes of late delivery are not recognized by contract, shipbuilding contracts provide for the payment of penalties that generally increase the longer the delay.	The Group manages its contracts through dedicated structures that control all aspects during the contract life cycle (design, procurement, construction, outfitting). Contracts with suppliers include the possibility of applying penalties for delays or hold-ups attributable to such suppliers.

DESCRIPTION OF RISK	IMPACT	MITIGATION
The operational management of contracts carries a risk that one or more counterparties with whom the Group has contracts are unable to meet its commitments, more specifically involving one or more clients that do not meet the contractual obligations, or one or more suppliers that fail to discharge their obligations for operational or financial reasons, with potentially serious effects on the performance of operating activities and a potential increase in costs, including legal, in the case of a failure to comply with contractual commitments. The Offshore industry is in the midst of a profound global market deterioration affecting all its players with a significant number of shipowners undertaking restructuring, in turn giving rise to increased counterparty risk. With particular reference to VARD, deterioration in the financial situation of clients in the Offshore sector has led to the cancellation or redefinition of the delivery dates of some orders in the order book.	Bankruptcy by one or more counterparties, whether clients or suppliers, can have serious effects on the Group's production and cash flows, given the high unit value of shipbuilding orders and the strategic nature of certain supplies for the production process. In particular, client cancellation of orders during vessel construction exposes the Group to the risk of having to sell the vessel in adverse market conditions or, potentially, at prices that do not allow its construction costs to be recovered. Moreover, the postponement of delivery dates can significantly increase working capital financing needs, with a consequent growth in debt and higher borrowing costs.	When acquiring orders, and where deemed necessary, the Group can perform checks on the financial strength of its counterparties, including by obtaining information from leading credit rating agencies. Suppliers are subject to a qualification process, including evaluation of the potential risks associated with the counterparty concerned. As regards the financial aspect, the Group offers its suppliers the opportunity to use instruments that facilitate their access to credit. To address the difficult situation in the offshore market, the subsidiary VARD is now working with clients and financial institutions to ensure delivery the majority of the offshore vessels in the current order book and is pursuing the initiatives launched to ensure a commercial solution to the few offshore projects that have remained in the order book to date. The subsidiary is also considering, where possible, all technical and commercial opportunities to reconvert and reposition on the new markets served those vessels already built but whose orders have been cancelled.

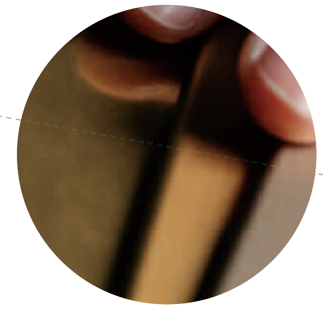
DESCRIPTION OF RISK	IMPACT	MITIGATION
A significant number of the Group's shipbuilding contracts (in general, for merchant vessels like cruise ships and offshore support vessels) establish that clients pay only a part of the contract price during ship construction; the balance of the price is paid upon delivery. As a result, the Group incurs significant upfront costs, assuming the risk of incurring such costs before receiving full payment of the price from its clients and thus having to finance the working capital absorbed by ships during construction.	If the Group were unable to offer its clients sufficient financial guarantees against the advances received or to meet the working capital needs of ships during construction, it might not be able to complete contracts or win new ones, with negative effects on its results of operations and financial condition. Moreover, the cancellation and postponement of orders by clients in difficulty could have a significant impact on the Group's financial structure and margins, with the risk that banks limit access to credit, thereby depriving it of the necessary funding for its working capital, such as construction loans, or that banks will only be willing to grant credit at more costly conditions.	The Group adopts a financing strategy aimed at diversifying as much as possible the technical forms of financing and the financing counterparties with the ultimate objective of maintaining a more than sufficient credit capacity to guarantee coverage of the working capital needs generated by its operations.

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Group's clients often make use of financing to finalize the placement of orders. Overseas clients may be eligible for export finance schemes structured in accordance with OECD rules. Under such schemes, overseas buyers of ships can obtain bank credit against receipt of a guarantee by a national export credit agency, which in the case of Italy is SACE S.p.A. and GIEK in the case of Norway. The availability of export financing is therefore a key condition for allowing overseas clients to award contracts to the Group, especially where cruise ship construction is concerned.	The lack of available finance for the Group's clients or the low competitiveness of their conditions could have a highly negative impact on the Group's ability to obtain new orders as well as on the ability of clients to comply with the contractual terms of payment.	Fincantieri supports overseas clients during the process of finalizing export finance and particularly in managing relations with the agencies and companies involved in structuring such finance (for example, SACE, Simest and the banks). In addition, the process of structuring finance is managed in parallel with the process of finalizing the commercial contract, the enforceability of which is often subject to the shipowner's receipt of the commitment by SACE and the banks to provide an export credit guarantee. The subsidiary VARD also actively works with GIEK, the Norwegian export credit agency, particularly in a new sector for the Norwegian market like that of expedition cruise vessels. As an additional safeguard for the Group, in the event of a client default on its contractual obligations, Fincantieri has the right to terminate the contract. In such a case, it is entitled to keep the payments received and the ship under construction. The client may also be held liable for paying any costs prepaid by the Group.



5 Risks related to production outsourcing and relations with suppliers and local communities

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Fincantieri Group's decision to outsource some of its business activities is dictated by strategic considerations based on two factors: a) outsource activities for which it has the skills but insufficient in-house resources; b) outsource activities for which there are no in-house skilled resources and which would be too expensive and inefficient to develop. Dependence on suppliers for certain business activities may result in the inability to ensure high standards of quality, failure to meet delivery dates, the acquisition of excessive supplier bargaining power, and a lack of access to new technologies. In addition, the significant presence of suppliers in the production process has an impact on local communities, possibly requiring the Group to address social, political and legality issues.	A negative performance by suppliers in terms of quality, timing or costs causes production costs to rise, and the client's perception of the quality of the Fincantieri product to deteriorate. As for other partners at the local level, non-optimal relations may impact the Group's ability to compete on the market.	The Group has specific personnel in charge of coordinating the assembly of on-board systems and managing specific areas of outsourced production. In addition, the Fincantieri Group carefully selects its "strategic suppliers", which must meet the highest standards of performance. The Parent Company has developed a precise program of supplier performance evaluation in this regard, ranging from measurement of the services rendered, both in terms of quality of service offered and punctuality of delivery, to the strict observation of safety regulations, in line with the Group's "Towards Zero Accidents" objective. In addition, particular attention is paid in general to relations with the local communities that interact with the Group's shipyards, involving appropriate institutional relationships, at the time supplemented by the conclusion of suitable legality and/or transparency protocols with the local authorities, which in turn enabled the definition of the National Legality Framework Protocol signed in 2017. The subsidiary VARD has paid special attention to the process of evaluating and managing contracts with suppliers operating in new sectors that the Group entered as a result of its diversification strategy.



6 Risks related to business sustainability

DESCRIPTION OF RISK	IMPACT	MITIGATION
The shipbuilding industry, due to its specific characteristics, requires consideration of certain issues relating to the social and environmental sustainability of the business. The Company is committed to disseminating its Governance Model within the Group; however, any shortcomings in the communication of its commitment to the Group could put at risk the achievement of the goals defined and communicated to stakeholders. Furthermore, the Company has identified specific risks related to shipbuilding products and processes, including: • the risk of failing to pay attention to the development of new technologies and environmentally friendly products; • the risk of poor management of environmental issues, such as those related to climate change (impact of natural events, increase in the price of materials due to factors connected to climate); • the risk that the supply chain does not mirror the sustainability principles communicated by the Company; • the risk of failing to optimize the Group's human capital.	The aim of the Company is to combine business growth and financial soundness in line with social and environmental sustainability principles, and failure to achieve this goal could, in the long term, compromise growth of the Company's value, which benefits stakeholders.	The Company has developed a sustainability governance system which defines the roles and responsibilities of these processes in order to ensure adequate monitoring and control. The risks related to sustainability are identified, assessed and managed within the context of the Enterprise Risk Management process, and the Company has adopted a Sustainability Plan and monitors its application. The initiatives launched are accurately reported in the Sustainability Report.

7 Risks related to knowledge management

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Fincantieri Group has a vast accumulation of experience, know-how and business knowledge. As far as the workforce is concerned, the domestic labour market is not always able to satisfy the needs of production, either in terms of numbers or skills. The effective management of the Group's business is also linked to the ability to attract highly professional resources for key roles, and the ability to retain such talents within the Group; this involves suitable talent and resource management with a view to continuous improvement, achieved by investing in staff training and performance evaluation.	The inadequacy of the domestic labour market to meet the Group's needs, the inability to acquire the necessary skills and the failure to transfer specific knowledge to the Group's resources, particularly in the technical sphere, could have negative effects on product quality.	The Human Resources Department constantly monitors the labour market and maintains frequent contact with universities, vocational schools and training institutes. The Group also makes a significant investment in training its staff, not only in technical-specialist and managerial-relational skills, but also regarding safety and quality. Lastly, specific training activities are organized to ensure that key management positions are covered in the event of staff turnover. With regard to the subsidiary VARD, an internal reorganization has been carried out to assist the process of diversifying into new markets, with particular attention to the development of new concepts and alteration of production processes. At the same time, actions to recruit qualified labour have been launched in the Romanian shipyards to increase the technical and qualitative level of the workforce and achieve production efficiency in order to both support the parent company's production plan and guarantee better management of the other projects in the order book.

8 Risks related to legal and regulatory environment

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Fincantieri Group must abide by the regulations in force in the countries where it operates, including those to safeguard the environment and health and safety at work, tax regulations and the personal data protection regulation. Any breaches of such rules and regulations could result in civil, tax, administrative or criminal sanctions, along with an obligation to do all that is necessary to comply with such regulations, the costs and liability for which could have a negative impact on the Group's business and results.	Any breaches of tax, safety or environmental standards, any changes in the local legal and regulatory framework, as well as the occurrence of exceptional or unforeseen events, could cause the Fincantieri Group to incur extraordinary costs relating to tax, the environment or safety at work. Any breaches of personal data protection regulations would result in the application of the sanctions introduced by EU Regulation 2016/679 regarding the protection of personal data.	The Group promotes compliance with all rules, regulations and laws that apply to it and implements and updates suitable prevention control systems for mitigating the risks associated with breach of such rules, regulations and laws. Accordingly, in order to prevent and manage the risk of occurrence of unlawful acts, the Parent Company has adopted an organizational, management and control model under Legislative Decree 231 of 8 June 2001, which is also binding for suppliers and, in general, for third parties working with Fincantieri. In particular, the Parent Company has applied the provisions of Legislative Decree 81/2008 - "Implementation of art. 1 of Law no. 123 dated 3 August 2007, concerning health and safety at work" (known as the "Health and Safety at Work Act"). Fincantieri has adopted suitable organizational models for preventing breach of these regulations, and sees that such models are reviewed and updated on an ongoing basis. The commitment to pursue and promote principles of environmental sustainability has been reaffirmed in the Parent Company's Environmental Policy document, which binds the Group to uphold regulatory compliance and to monitor working practices so as to ensure effective observance of the rules and regulations. The subsidiary VARD is also committed to minimizing the impact of its activities on the environment, involving actions in terms of resources, policies and procedures to improve its environmental performance. Fincantieri and VARD have implemented an Environmental Management System at their sites with a view to obtaining certification under UNI EN ISO 14001:2004 and has started updating to the 2015 standard. As regards the mitigation of tax risks, the Group constantly monitors changes to the law force. Compliance with the personal data protection regulation is ensured by a system of internal rules adopted in order to ensure that the personal data collected and processed within the company's business processes.

DESCRIPTION OF RISK	IMPACT	MITIGATION
Working in the defence and security sector, the Group is exposed to the risk that the evolving tendency in this sector could lead in the near future to restrictions on the currently permitted exceptions to competition law, with consequent limitations on the direct award of business in order to ensure greater competition in this particular market.	Possible limitations on the direct award of business could prevent the Group from being awarded work through negotiated procedures, without any prior publication of a public tender notice.	The Group is monitoring the possible evolution of national and Community legislation that could open up the possibility of competing in the defence and security sector including in other countries.

9 Risks related to information access and operation of the computer system

DESCRIPTION OF RISK	IMPACT	MITIGATION
The Group's business could be adversely affected by: • inadequate management of the Group's sensitive data, due to ineffective protective measures, with unauthorized persons outside the Group able to access and use confidential information; • improper access to information, involving the risk of accidental or intentional alterations or cancellations by unauthorized persons; • IT infrastructure (hardware, networks, software) whose security and reliability are not guaranteed, resulting in possible disruption of the computer system or network or in illegal attempts to gain unauthorized access or breaches of its data security system, including coordinated attacks by groups of hackers.	Computer system failures, loss or corruption of data, including as a result of external attacks, inappropriate IT solutions for the needs of the business, or updates to IT solutions not in line with user needs, could affect the Group's operations by causing errors in the execution of operations, inefficiencies and procedural delays and other disruptions, affecting the Group's ability to compete on the market.	The Group considers it has taken all necessary steps to minimize these risks, by drawing on best practice for its governance systems and continuously monitoring the management of its IT infrastructure and applications. Authority to access and operate on the computer system is managed and maintained to ensure proper segregation of duties, as enhanced with the adoption of a new access management procedure using special software, allowing prior identification and treatment of the risks of segregation of duties (SoD) resulting from inappropriate attribution of access credentials.

10 Risks related to exchange rates

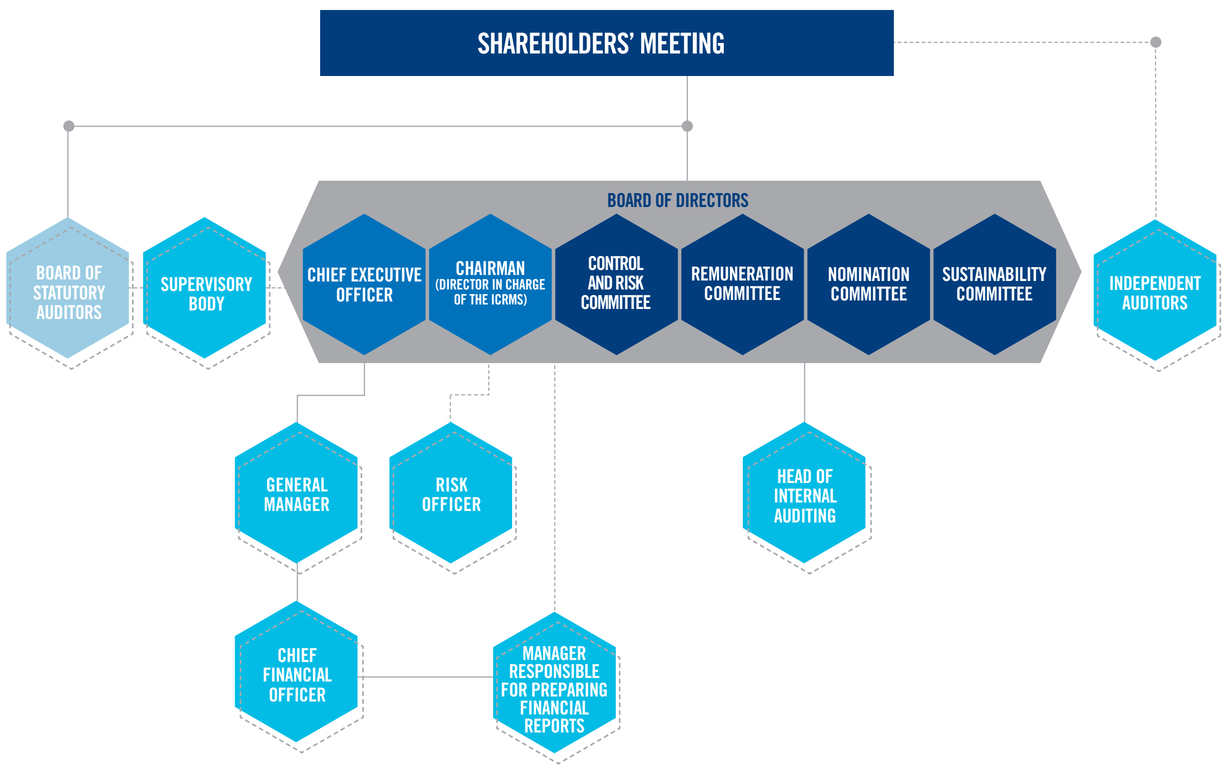
DESCRIPTION OF RISK	IMPACT	MITIGATION
The Group is exposed to exchange rate risk on transactions of a commercial and financial nature denominated in a currency other than the functional one (economic risk and transaction risk). In addition, translation risk can arise when preparing the Group's financial statements, through translation of the income statements and balance sheets of consolidated subsidiaries that operate in a currency other than the Euro (mainly NOK, USD and BRL).	The absence of adequate currency risk management could increase the volatility of the Group's economic results. In particular, if currencies in which shipbuilding contracts are denominated were to depreciate, this could have an adverse impact on the Group's profit margins and cash flow.	Fincantieri has a policy for managing economic and transaction financial risks that defines instruments, responsibilities and reporting procedures, with which it mitigates currency market risks. With regard to currency translation risk, the Group constantly monitors its main exposures which are normally not subject to coverage. In the same way, the subsidiary VARD prepared a management policy that is based on the fundamental principles defined by the Parent Company, though with some differences due to the company's particular needs.

11 Risks related to financial debt

DESCRIPTION OF RISK	IMPACT	MITIGATION
Some of the loan agreements entered into by the Group require it or some of its companies to comply with conditions, commitments and constraints of a financial and legal nature (such as the occurrence of events of default, even potential ones, cross-default clauses and covenants), non-observance of which could lead to immediate repayment of the loans. In addition, future increases in interest rates could lead to higher costs and payments depending on the level of indebtedness outstanding at the time. The Group might not be able to access sufficient credit to properly finance its activities (such as in the case of particularly poor financial performance) or it might be able to access it only under particularly onerous terms and conditions. As for the Offshore industry, the worsening financial situation resulting in restructuring by many industry players is causing banks to reduce their credit exposure to them, with the risk of consequent repercussions for VARD's ability to access construction loans, needed not only for offshore projects but also for those in new markets.	In the event of having limited access to credit, including because of its financial performance, or in the event of a rise in interest rates or of early repayment of debt, the Group could be forced to delay raising capital or to seek financial resources under more onerous terms and conditions, with negative effects on its results of operations and financial condition.	To ensure access to adequate types of finance in terms of amount and conditions, the Group constantly monitors the results of its operations and financial condition and its current and future capital and financial structure as well as any circumstances that could adversely affect them. In particular, to mitigate liquidity risk and maintain a sufficient level of financial flexibility, the Group diversifies its sources of funding in terms of duration, counterparty and technical form. Moreover, the Company can negotiate derivative contracts, usually in the form of interest rate swaps, in order to contain the impact of fluctuations of interest rates on the Group's medium/long-term profitability.

CORPORATE GOVERNANCE

The "Report on Corporate Governance and Ownership Structure" (the "Report") required by Art. 123-bis of the Consolidated Law on Finance is a stand-alone document approved by the Board of Directors on 1 April 2020, and published in the "Ethics and Governance" section of the Company's website at www.fincantieri.it.
The Report has been prepared in accordance with the recommendations of the Corporate Governance Code and modelled on the "Format for the report on corporate governance and ownership structure - VIII Edition (January 2019)" drawn up by Borsa Italiana S.p.A.
The Report contains a general and complete overview of the corporate governance system adopted by FINCANTIERI S.p.A. It presents the Company's profile and the principles underlying the way it conducts its business; it provides information about the ownership structure and adoption of the Corporate Governance Code, including the main governance practices applied and the main characteristics of the system of internal control and risk management; it contains a description of the operation and composition of the governing and supervisory bodies and their committees, roles, duties and responsibilities.
The criteria for determining the compensation of the directors are set out in the "Remuneration Report", prepared in compliance with the requirements of Art. 123-ter of Italy's Consolidated Law on Finance and Art. 84-quater of the Consob Issuer Regulations, and published in the "Ethics and Governance" section of the Company's website.



OTHER INFORMATION

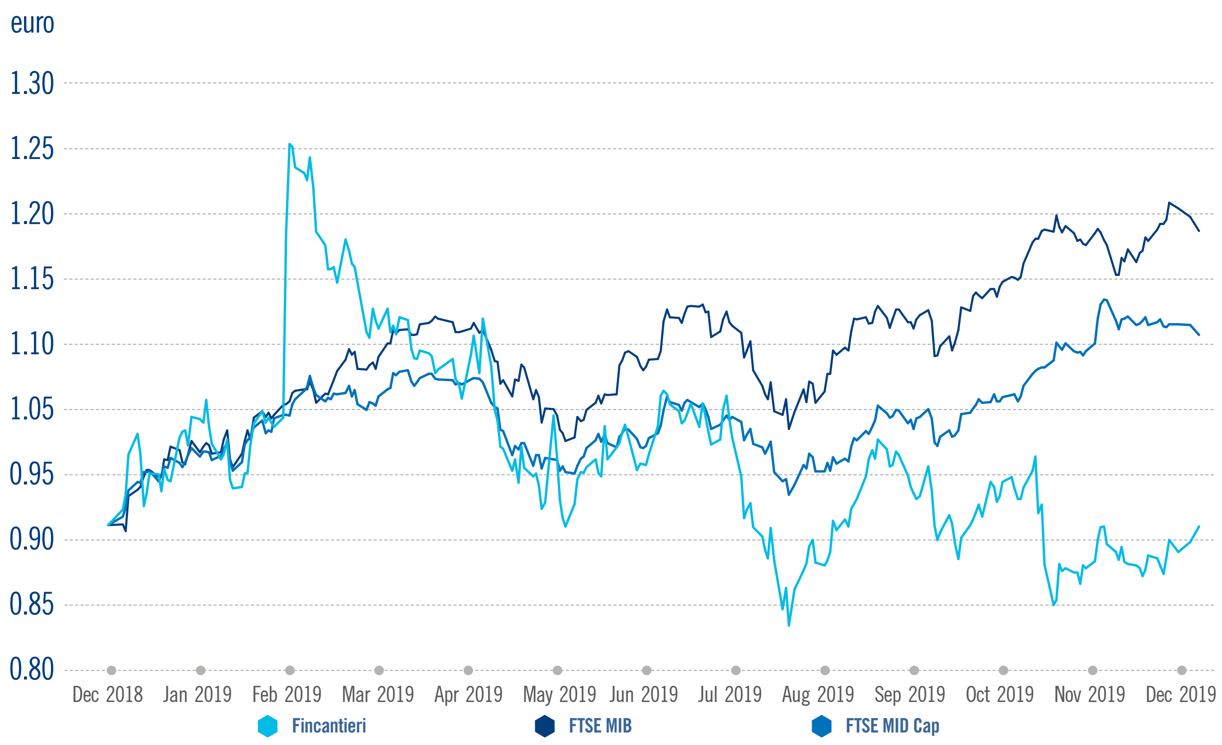
Stock performance

The performance of the stock in 2019 was largely stationary, falling from a price of euro 0.922 per share on 28 December 2018 to euro 0.921 per share on 30 December 2019. The FTSE MIB, the index comprising Italy's 40 largest stocks, rose by 28.3% over the same period, while the FTSE Mid Cap index, which includes Fincantieri, rose by 18.3%.
During 2019, the stock market performance of FINCANTIERI S.p.A. shares recorded a positive trend in the first part of the year. There was also a slowdown due both to the development of the "Chantiers de l'Atlantique" operation and the performance of the subsidiary VARD.
The stock recorded an average price for the year of euro 0.98 per share, with a peak value for the period of euro 1.26 on 27 February. The stock closed the year, on 30 December 2019, with a price of euro 0.92 per share corresponding to a market capitalization of over euro 1.5 billion.
In terms of volumes, a total of 1.4 billion shares were traded during the year, with an average daily trading volume of around 5.5 million shares.
At 31 December 2019, Fincantieri's share capital of euro 862,980,725.70 was held as follows: 71.32% by CDP Industria S.p.A., 28.26% by the general market and 0.42% in own shares.

KEY FIGURES		31.12.2019	31.12.2018
Share capital	euro	862,980,725.70	862,980,725.70
Ordinary shares issued	number	1,699,651,360	1,692,119,070
Own shares	number	7,226,303	4,706,890
Market capitalization*	euro/million	1,565	1,560

PERFORMANCE		31.12.2019	31.12.2018
Price at year end	euro	0.92	0.92
Year high	euro	1.26	1.52
Year low	euro	0.83	0.91
Average price	euro	0.98	1.28

*Number of shares outstanding multiplied by reference share price at period end.



Other significant events in the period

JANUARY

On **14 January 2019**, Cassa Depositi e Prestiti, Fincantieri and Snam signed a preliminary cooperation agreement aimed at identifying, defining and implementing strategic medium-term projects in some key segments for innovation and the development of the Italian ports, as well as for the development of sustainable technologies for sea transport, in line with the Proposals of the National Integrated Plan for Energy and the Climate.

FEBRUARY

On **4 February 2019** the Autorità di sistema portuale del Mare di Sicilia Occidentale (AdSP- Western Sicilian Sea Port Authority) and Fincantieri signed a Memorandum of Understanding for the launch of a shipbuilding hub in the port of Palermo, with the shared goal of enabling the Sicilian site to assert itself as one of the most important shipyards in the Mediterranean.

On **21 February 2019,** during the International Defence Exhibition & Conference (IDEX) 2019 in Abu Dhabi, Fincantieri and Abu Dhabi Shipbuilding, leading group in the United Arab Emirates specializing in the construction, repair and refitting of merchant and navy ships, announced the reaching of an outline agreement to explore forms of industrial and commercial cooperation in the future in the marine engineering segment in the UAE.

MARCH

On **6 March 2019**, Fincantieri signed a joint working agreement for charitable purposes with Banco Alimentare della Liguria, a not-for-profit association involved in the recovery of surplus food, and I.F.M., a company that provides catering services at the Muggiano (La Spezia) yard canteen.

On **7 March 2019**, Genova Industrie Navali - holding, established in 2008 by the merger of two historic Genoa shipyards, T. Mariotti and San Giorgio del Porto - and Fincantieri reached a joint working agreement covering various areas, from new constructions, to repairs and conversions, to ship fittings. This agreement involves the acquisition by Fincantieri of a minority shareholding in the group holding and the option for a minority share in T. Mariotti.

The inauguration ceremony for the Fincantieri Infrastructure site was held on **11 March 2019** in Valeggio sul Mincio (Verona). During the event, the cutting of the first steel sheet for the construction of the new Polcevera viaduct was celebrated.

APRIL

On **23 April 2019**, within the context of the strengthening of its activities in the operating segments with high technology content, Fincantieri purchased a majority share of the capital of Insis S.p.A., a company based in Follo (La Spezia), operating in the IT and electronic sectors.

On **30 April 2019**, the Chairman of INAIL - the Italian National Institute for Insurance against Accidents at Work - Massimo De Felice, and the Chief Executive Officer of Fincantieri, Giuseppe Bono, signed a memorandum of understanding aimed at developing a safety culture in the workplace and the implementation of activities and projects for the systematic reduction of occupational accidents and diseases.

MAY

On **20 May 2019,** the Chief Executive Officer of Fincantieri, Giuseppe Bono, and the Rector of the University of Calabria, Professor Gino Mirocle Crisci, signed, at the university campus, an agreement aimed at establishing new collaborative relationships in the civil, industrial and IT engineering sectors.

FINCANTIERI GROUP / REPORT ON OPERATIONS

JUNE

On **7 June 2019**, Fincantieri signed a joint working agreement for charitable purposes with Banco Alimentare Marche, a not for profit association involved in the recovery of surplus food, and Gemeaz Elior, a company that provides catering services at the Ancona yard canteen.

On **14 June 2019**, Fincantieri and Naval Group signed the Alliance Cooperation Agreement, which defines the operating terms for the establishment of a 50/50 joint venture. The agreement was signed by the CEOs of the two companies Giuseppe Bono and Hervé Guillou on board the frigate "Federico Martinengo", moored at the La Spezia Navy Arsenal, a vessel from the Italian-French FREMM program, underlining the solidity of the twenty-year collaboration between the two countries, their industries and the national navies.

On **18 June 2019**, Fincantieri and the National Research Council of Italy (CNR) presented the results of six multidisciplinary projects, within the context of the funding relating to innovation in the marine division of the Ministry of Infrastructure and Transport.

On **26 June 2019**, as part of the agreement signed between Fincantieri, Regione Liguria and the trade union organizations CGIL, CISL and UIL last year and aimed at implementing a series of initiatives to facilitate work placement processes, the offer of ITS courses was extended to the autumn: a new course will begin in Liguria at the Merchant Marine Academy in order to meet the employment needs of the shipbuilding industry.

On **27 June 2019**, the Fincantieri Board of Directors, in execution of the authorization granted by the Extraordinary Shareholders' Meeting on 19 May 2017, approved the issue of 7,532,290 ordinary shares, without nominal value, having the same characteristics as the ordinary shares in circulation, for the "Performance Share Plan 2016-2018", to be allocated free of charge to the beneficiaries of the plan, without an increase in share capital pursuant to art. 2349 of the Italian Civil Code according to the terms and conditions set out therein. The shares were issued on 30 July 2019.

SEPTEMBER

On **26 September 2019**, the Fincantieri shipyard in Palermo also completed the process for RINA to issue OHSAS 18001 and UNI EN ISO 14001 Certificates of Conformity, the highest international standards of health and safety at work and environmental protection. With this result, the company arrived at full coverage of all the Group's Italian production units.

OCTOBER

On **28 October 2019**, in the presence of the Chairman of the Board of Ministers, Giuseppe Conte, the Managing Directors of Cassa Depositi e Prestiti, Fabrizio Palermo, Fincantieri, Giuseppe Bono, Terna, Luigi Ferraris and Eni, Claudio Descalzi, signed an agreement in Ravenna that lays the foundations for the establishment of a company for the development and construction of wave power plants, in execution of the agreement signed on 19 April 2019.

NOVEMBER

On **15 November 2019**, the Ordinary Shareholders' Meeting of FINCANTIERI S.p.A.met in Trieste and resolved to approve the consensual termination of the audit engagement conferred on the independent auditors PricewaterhouseCoopers S.p.A., and to confer, upon proposal of the Board of Statutory Auditors, the audit engagement for Fincantieri S.p.A. for the years 2020-2028 to the independent auditors Deloitte & Touche S.p.A., determining the related fee.

On **27 November 2019**, as part of the broad framework of collaborations activated in the recent past, Fincantieri and the University of Genoa signed a new agreement for the promotion and financing of some experimental teaching activities in the naval sector.

On **28 November 2019**, as part of the process to strengthen corporate responsibility, Fincantieri joined the United Nations Global Compact, the world's largest business sustainability initiative.

Key events after the reporting period ended 31.12.2019

The first meeting of the Board of Directors of Naviris, the joint venture between Fincantieri and Naval Group, was held on 14 January 2020. This partnership consolidates the two companies' shared desire to build a future of excellence for the shipbuilding industry and Navies. Giuseppe Bono was assigned the Chairmanship and Hervé Guillou is a member of the Board of Directors. During the Franco-Italian summit in Naples on 27 February 2020, an intergovernmental agreement was signed, reaffirming the full support of France and Italy for the joint venture. This agreement makes the long-term alliance initiated by the two industrial groups fully operational.
On 24 January 2020, Fincantieri and the Qatari Ministry of Defence, through Barzan Holdings, a company 100% owned by the Qatari Ministry of Defence, signed a Memorandum of Understanding (MoU) in Doha aimed at strengthening the strategic partnership through the evaluation and study of new technologies and capabilities, which could lead to the future acquisition of new units as early as 2020.
On 24 February 2020, Marakeb Technologies, a leading automation solutions provider, and Fincantieri signed a Memorandum of Understanding to explore opportunities for collaboration in automation at international level.
On 6 March 2020, Cassa Depositi e Prestiti, Eni and Fincantieri, confirming their common commitment to the transition towards decarbonization and environmental sustainability, signed a Memorandum of Understanding to develop joint projects within the circular economy, aimed at identifying and implementing technological solutions to deal with marine litter, in a mutually reinforcing way, which compromises the marine and coastal ecosystem mainly due to floating plastic waste and microplastics. The agreement was signed with the aim of studying and developing technologies for the collection of waste dispersed at sea and along the coast and then use them to generate mobility products and industrial applications.
On 10 March 2020, Fincantieri Infrastructure raised the new 100-meter maxi steel deck. The deck, whose profile will recall the hull of a ship, as designed by Renzo Piano was transported across the Polcevera river.
In the second half of the month, the last 100-meter maxi span was also raised, taking the new Genoa bridge over the railway.
On 13 March 2020, Fincantieri, following the outbreak of the Coronavirus epidemiological phenomenon and in application of the measures that the Government has progressively put in place, decided to suspend production activities at the Group's Italian sites from March 16 to 29.
On 26 March 2020, Fincantieri, while taking all the necessary actions to make its employees safe, decided to continue the suspension of work at its plants and offices until the date indicated in the Decree of the President of the Council of Ministers of March 22. Therefore, Fincantieri and the national trade unions FIM - FIOM - UILM, have signed an agreement that provides for the possibility of using the Ordinary Wage Guarantee Fund (CIGO) for personnel at all company sites. During the period covered by CIGO, maintenance activities of the plants and essential services of the sites are still carried out, as are the direction and management activities strictly necessary for the current obligations of the company, where possible using smart working, and in order to carry out the preparatory activities for resumption of production.

Business outlook

After the end of the financial year, in the first months of 2020, the **COVID-19 pandemic emergency** occurred at a global level, resulting in strong pressure on national health systems and the progressive enactment by government authorities of a series of measures aimed at containing the risk of further expansion of the virus. These measures are having significant effects on the social and working lives of individuals and on the world economy.
The Group reacted promptly to this pandemic, activating initiatives to pursue its priority objectives of protecting the health of its employees and those of the companies in the industry; in fact, the Group's priority at this time is to implement all the necessary initiatives to safeguard the health and well-being of its people, who are its most important asset. In this context, Fincantieri has currently **suspended production activities** at Italian production sites as of 16 March 2020. The Group is in any case actively involved in daily monitoring of the evolution of the spread of the virus, in order to ensure a proactive management of its potential effects.
At the same time, as far as production activities are concerned, despite the mitigating actions already promptly implemented by the Company, including the purchase of medical devices for the regular performance of the Company's operations, the COVID-19 emergency is having significant **effects on the regular and ordinary performance of the Group's activities in 2020**. In particular, the pandemic, also taking into account its global scope, may have an impact mainly on the following areas of the Group's activities:

- Production schedules
- Supply chain, in terms of availability of resources, delivery times and financial situation of the supplier network
- Personnel, in terms of production efficiency, availability of resources, logistics and insurance needs
- Capital expenditure plans
- Commercial negotiations

At a global level, one of the sectors most affected by the current emergency situation is tourism, particularly the cruise market where shipowners were among the first to be forced to stop their operations. In this context, the Group's priority and efforts are focused on care of customers and strategic partners in order to **safeguard the order backlog acquired**, a fundamental element not only for Fincantieri and the system of related network, but for the recovery of the national economy. It should be noted that the current health emergency is a cause of force majeure within the scope of the contracts, allowing the Group to modify the production schedules and delivery dates of the ships. Should the situation be resolved within a reasonable timeframe, Fincantieri believes that the **Group's equity and economic structure** is able to cope with the effects of the emergency.
In view of the uncertainty regarding the impact on public health and, consequently, on the productive, economic and social fabric of the country, as soon as the development of the emergency allows a clearer analysis of the possible impact, the Company will finalize the new 2020-2024 Business Plan and promptly communicate it to the market. Information on performance for the 2020 financial year will be communicated when the interim financial reports are published.

Transactions with the controlling company and other group companies

With effect from 3 July 2014, Fintecna S.p.A. ceased its management and coordination activities, maintaining its position as the main shareholder of FINCANTIERI S.p.A. until 13 December 2019, the date on which CDP Industria S.p.A. took over as the main shareholder of FINCANTIERI S.p.A..
In compliance with the provisions of the Regulations concerning related party transactions adopted under Consob Resolution no. 17221 of 12 March 2010 and subsequent amendments and additions, FINCANTIERI S.p.A. has adopted a "Procedure for Related Party Transactions" with effect from 3 July 2014.
As far as related party transactions in the year are concerned, these do not qualify as either atypical or unusual, since they fall within the normal course of business by the Group's companies. Such transactions are conducted under market terms and conditions, taking into account the characteristics of the goods and services involved.
Information about related party transactions, including the disclosures required by the Consob Communication dated 28 July 2006, is presented in Note 33 of the Notes to the Condensed Consolidated Interim Financial Statements at 31 December 2019.

Purchase of own shares

The Shareholders' Meeting held on 19 May 2017 authorized the Board of Directors to purchase its own ordinary shares on the market in order to implement the first cycle of the medium/long-term share-based incentive plan for management, called the Performance Share Plan 2016-2018. At 31 December 2019, FINCANTIERI S.p.A. held 7,226,303 treasury shares (equal to 0.42% of the Share Capital) with a total value of euro 7,118 thousand.

Italian stockmarket regulations

Art. 15 (formerly art. 36) of the Consob (Italian Stockmarket) Regulations (adopted by Consob Resolution no. 16191/2007 and updated with Consob Resolution no. 20249 of 28 December 2017) sets out the listing conditions for controlling companies incorporated in and governed by the laws of non-EU countries. With reference to the regulatory requirements concerning the listing conditions for controlling companies, incorporated in and governed by the laws of non-EU countries, that are material to the consolidated financial statements, it is reported that at 31 December 2019, the Fincantieri subsidiaries falling under the scope of the above article are the VARD Group and the FMG Group. Suitable procedures have already been adopted to ensure that these groups comply with these regulations (art. 15).
In accordance with the disclosures required by Consob Communication no. DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions took place during 2019.

Sustainability report

Fincantieri Group's Sustainability Report 2019 was approved by the Board of Directors on 1 April 2020 and published on the Company's internet site at the address www.fincantieri.it in the Sustainability section.

ALTERNATIVE PERFORMANCE MEASURES

Fincantieri's management reviews the performance of the Group and its business segments, also using certain indicators not envisaged by IFRS. In particular, EBITDA is used as the main earnings indicator, as it enables the Group's underlying profitability to be assessed without the impact of volatility associated with non-recurring items or extraordinary items outside the ordinary course of business.
As required by Consob Communication no. 0092543 of 3 December 2015 which implements the ESMA Guidelines on Alternative Performance Measures (document no. ESMA/2015/1415), the components of each of these indicators are described below:

• EBITDA: this is equal to earnings before taxes, before finance income and costs, before income and expenses from investments and before depreciation, amortization and impairment, as reported in the financial statements, adjusted to exclude the following items:
  - costs relating to reorganization plans and non-recurring other personnel costs;
  - provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages;
  - other income or expenses outside the ordinary course of business due to non-recurring events.
• EBIT: this is equal to EBITDA after deducting recurring depreciation, amortization and impairment of a recurring nature (this excludes impairment of goodwill, intangible assets and property, plant and equipment recognized as a result of impairment tests).
• Adjusted profit/(loss) is equal to profit (loss) for the year before adjustments for non-recurring items or those outside the ordinary course of business, which are reported before the related tax effect.
• Net fixed capital: this reports the fixed assets used in the business and includes the following items: Intangible assets, Property, plant and equipment, Investments and Other non-current assets and liabilities (including the fair value of derivatives classified in non-current Financial assets and non-current Financial liabilities) net of Employee benefits.
• Net working capital: this is equal to capital employed in ordinary operations which includes Inventories and advances, Construction contracts and client advances, Construction loans, Trade receivables, Trade payables, Provisions for risks and charges, and Other current assets and liabilities (including Income tax assets, Income tax liabilities, Deferred tax assets and Deferred tax liabilities, as well as the fair value of derivatives classified in current Financial assets and current Financial liabilities).
• Net invested capital: this is equal to the total of Net fixed capital and, Net working capital and Net assets (liabilities) held for sale and discontinued operations..
• ROI: Return on Investment is calculated as the ratio between EBIT and the arithmetic mean of Net invested capital at the beginning and end of the reporting period.
• ROE: Return on equity is calculated as the ratio between Profit/(loss) for the period and the arithmetic mean of Total Equity at the beginning and end of the reporting period.
• Total debt/Total equity: this is calculated as the ratio between Total debt and Total equity.
• Net financial position/EBITDA: this is calculated as the ratio between the Net financial position, as monitored by the Group, and EBITDA.
• Net financial position/Total equity: this is calculated as the ratio between the Net financial position, as monitored by the Group, and Total equity.
• Provisions: these refer to increases in the Provisions for risks and charges, and impairment of Trade receivables and Other non-current and current assets.

RECONCILIATION OF PARENT COMPANY PROFIT/(LOSS) FOR THE YEAR AND EQUITY WITH THE CONSOLIDATED FIGURES

As required by the Consob Communication of 28 July 2006, the following table provides a reconciliation between equity and profit/(loss) for the year of the Parent Company FINCANTIERI S.p.A. with the consolidated figures (Group and non-controlling interests).

(euro/000)

	31.12.2019		31.12.2018	
	Equity	Profit/(loss) for the year	Equity	Profit/(loss) for the year
Parent Company Financial Statements	**1,629,648**	**151,352**	**1,524,774**	**217,998**
Share of equity and net result of consolidated subsidiaries, net of carrying amount of the related investments	(768,732)	(296,087)	(341,788)	(147,280)
Consolidation adjustments for difference between purchase price and corresponding book value of equity	189,556	(25,888)	218,823	(4,962)
Reversal of dividends distributed by consolidated subsidiaries to the Parent Company		(11,256)		
Joint ventures and associates accounted for using the equity method	13,116	(655)	15,330	5,650
Elimination of intercompany profits and losses and other consolidation adjustments	72,893	41,292	(58,459)	1,034
Exchange translation differences from line-by-line consolidation of foreign subsidiaries	(117,983)		(131,401)	
Equity and profit for the year attributable to owners of the parent	**1,018,498**	**(141,242)**	**1,227,280**	**72,440**
Non-controlling interests	31,351	(6,997)	25,690	(3,317)
Total consolidated equity and profit/(loss) for the year	**1,049,849**	**(148,239)**	**1,252,970**	**69,123**

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS USED IN THE REPORT ON OPERATIONS WITH THE MANDATORY IFRS STATEMENTS

CONSOLIDATED INCOME STATEMENT

(euro/million)

	31.12.2019		31.12.2018[1]	
	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A - Revenue		**5,849**		**5,416**
Operating revenue	5,775		5,311	
Other revenue and income	74		105	
B - Materials, services and other costs		**(4,497)**		**(4,029)**
Materials, services and other costs	(4,520)		(4,044)	
Recl. to I - Extraordinary and non-recurring income and expenses	23		15	
C - Personnel costs		**(996)**		**(941)**
Personnel costs	(1,000)		(946)	
Recl. to I - Extraordinary and non-recurring income and expenses	4		5	
D - Provisions		**(36)**		**(25)**
Provisions	(75)		(60)	
Recl. to I - Extraordinary and non-recurring income and expenses	39		35	
E - Depreciation, amortization and impairment		**(167)**		**(136)**
Depreciation, amortization and impairment	(168)		(136)	
Recl. to I - Extraordinary and non-recurring income and expenses	1			
F - Finance income/(costs)		**(134)**		**(104)**
Finance income/(costs)	(134)		(104)	
G - Income/(expense) from investments		**(3)**		**(1)**
Income/(expense) from investments	(3)		3	
Recl. to I - Extraordinary and non-recurring income and expenses			(4)	
H - Income taxes		**(87)**		**(66)**
Income taxes	(73)		(54)	
Recl. L- Tax effect of extraordinary and non-recurring income and expenses	(14)		(12)	
I - Extraordinary and non-recurring income and expenses		**(67)**		**(51)**
Recl. from B - Materials, services and other costs	(23)		(15)	
Recl. from C - Personnel costs	(4)		(5)	
Recl. from D - Provisions	(39)		(35)	
Recl. from E – Depreciation, amortization and impairment	(1)			
Recl. from G - Income/(expense) from investments			4	
L- Tax effect of extraordinary and non-recurring income and expenses		**14**		**12**
Recl. from H – Income taxes	14		12	
M - Profit/(loss) for the year from continued operations		**(124)**		**75**
N - Net profit/(loss) from discontinued operations		**(24)**		**(6)**
Net profit/(loss) from discontinued operations	(24)			
Profit/(loss) for the year		**(148)**		**69**

[1] The 2018 figures have been restated to reflect the discontinued operations of the small vessel construction business for the fishery and aquaculture sectors and the divestment of the Aukra yard.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/million)

	31.12.2019		31.12.2018	
	Amounts in IFRS statement	Amounts in reclassified statement	Amounts in IFRS statement	Amounts in reclassified statement
A - Intangible assets		**654**		**618**
Intangible assets	654		618	
B - Rights of use		**90**		
Rights of use	90			
C - Property, plant and equipment		**1,225**		**1,074**
Property, plant and equipment	1,225		1,074	
D - Investments		**75**		**60**
Investments	75		60	
E - Other non-current assets and liabilities		**(79)**		**8**
Derivative assets	2		30	
Other non-current assets	16		31	
Other liabilities	(66)		(32)	
Derivative liabilities	(31)		(21)	
F - Employee benefits		**(60)**		**(57)**
Employee benefits	(60)		(57)	
G - Inventories and advances		**828**		**881**
Inventories and advances	828		881	
H - Construction contracts and client advances		**1,415**		**936**
Construction contracts - assets	2,698		2,531	
Construction contracts - liabilities and client advances	(1,283)		(1,595)	
I - Construction loans		**(811)**		**(632)**
Construction loans	(811)		(632)	
L - Trade receivables		**677**		**749**
Trade receivables and other current assets	1,079		1,062	
Recl. to O - Other assets	(402)		(313)	
M - Trade payables		**(2,270)**		**(1,849)**
Trade payables and other current liabilities	(2,552)		(2,116)	
Recl. to O - Other liabilities	282		267	
N - Provisions for risks and charges		**(89)**		**(135)**
Provisions for risks and charges	(89)		(135)	
O - Other current assets and liabilities		**125**		**94**
Deferred tax assets	99		123	
Income tax assets	9		21	
Derivative assets	2		23	
Recl. from L - Other current assets	402		313	
Deferred tax liabilities	(54)		(58)	
Income tax liabilities	(7)		(4)	
Derivative liabilities and option fair value	(44)		(57)	
Recl. from M - Other current liabilities	(282)		(267)	
P) Net assets (liabilities) held for sale and discontinued operations		**6**		
NET INVESTED CAPITAL		**1,786**		**1,747**
Q - Equity		**1,050**		**1,253**
R - Net financial position		**736**		**494**
SOURCES OF FUNDING		**1,786**		**1,747**

FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

FINCANTIERI GROUP CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position 106
Consolidated statement of comprehensive income 107
Consolidated statement of changes in equity 108
Consolidated statement of cash flows 109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 111

Note 1 - Form, contents and other general information 112
Note 2 - Scope and basis of consolidation 118
Note 3 - Accounting standards 124
Note 4 - Financial risk management 138
Note 5 - Sensitivity analysis 148
Note 6 - Intangible assets 149
Note 7 - Rights of use 152
Note 8 - Property, plant and equipment 153
Note 9 - Investments accounted for using the equity method and other investments 155
Note 10 - Non-current financial assets 160
Note 11 - Other non-current assets 161
Note 12 - Deferred tax assets and liabilities 162
Note 13 - Inventories and advances 164
Note 14 - Construction contracts - assets 165
Note 15 - Trade receivables and other current assets 166
Note 16 - Income tax assets 167
Note 17 - Current financial assets 168
Note 18 - Cash and cash equivalents 169
Note 19 - Equity 170
Note 20 - Provisions for risks and charges 174
Note 21 - Employee benefits 175
Note 22 - Non-current financial liabilities 176
Note 23 - Other non-current liabilities 182
Note 24 - Construction contracts - liabilities 182
Note 25 - Trade payables and other current liabilities 183
Note 26 - Income tax liabilities 183
Note 27 - Current financial liabilities 184
Note 28 - Revenue and income 187
Note 29 - Operating costs 188
Note 30 - Finance income and costs 191
Note 31 - Income and expense from investments 192
Note 32 - Income taxes 193
Note 33 - Other information 195
Note 34 - Cash flows from operating activities 214
Note 35 - Segment information 215
Note 36 - Discontinued operations 218
Note 37 - Acquisition of the Insis Group 219
Note 38 - Events after 31 December 2019 220
Companies included in the scope of consolidation 222

MANAGEMENT REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS 228

REPORT BY THE INDEPENDENT AUDITORS 230

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)

	Note	31.12.2019	of which related parties Note 33	31.12.2018	of which related parties Note 33
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	6	654,495		617,668	
Rights of use	7	89,617			
Property, plant and equipment	8	1,225,030		1,074,026	
Investments accounted for using the equity method	9	55,772		55,651	
Other investments	9	19,594		4,556	
Financial assets	10	92,603	34,356	97,901	13,449
Other assets	11	17,523		31,811	673
Deferred tax assets	12	99,021		123,964	
Total non-current assets		**2,253,655**		**2,005,577**	
CURRENT ASSETS					
Inventories and advances	13	827,946	186,484	881,095	201,738
Construction contracts - assets	14	2,697,714		2,531,272	
Trade receivables and other current assets	15	1,079,388	175,334	1,062,377	145,310
Income tax assets	16	8,621		20,602	
Financial assets	17	9,329	389	48,688	86
Cash and cash equivalents	18	381,790		676,487	
Total current assets		**5,004,788**		**5,220,521**	
Assets classified as held for sale and discontinued operations	36	**6,141**		**-**	
TOTAL ASSETS		**7,264,584**		**7,226,098**	
EQUITY AND LIABILITIES					
EQUITY	19				
Attributable to owners of the parent					
Share capital		862,981		862,981	
Reserves and retained earnings		155,517		364,299	
Total Equity attributable to owners of the parent		**1,018,498**		**1,227,280**	
Attributable to non-controlling interests		31,351		25,690	
Total Equity		**1,049,849**		**1,252,970**	
NON-CURRENT LIABILITIES					
Provisions for risks and charges	20	70,882		126,523	
Employee benefits	21	60,044		56,806	
Financial liabilities	22	881,551	30,376	792,728	40,487
Other liabilities	23	28,576		32,137	
Deferred tax liabilities	10	54,349		58,012	
Total non-current liabilities		**1,095,402**		**1,066,206**	
CURRENT LIABILITIES					
Provisions for risks and charges	20	17,743		8,693	
Employee benefits	21	3		-	
Construction contracts - liabilities	24	1,282,713		1,594,793	
Trade payables and other current liabilities	25	2,553,701	117,812	2,116,290	66,642
Income tax liabilities	26	7,002		4,300	
Financial liabilities	27	1,258,171	11,695	1,182,846	12,324
Total current liabilities		**5,119,333**		**4,906,922**	
Liabilities directly associated with Assets classified as held for sale and discontinued operations	36	**-**		**-**	
TOTAL EQUITY AND LIABILITIES		**7,264,584**		**7,226,098**	

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	Note	2019	of which related parties Note 33	2018	of which related parties Note 33
Operating revenue	28	5,774,851	307,771	5,368,896	271,109
Other revenue and income	28	74,357	6,591	105,124	3,164
Materials, services and other costs	29	(4,520,109)	(211,702)	(4,104,050)	(106,386)
Personnel costs	30	(1,001,395)		(951,615)	
of which non-recurring	33	(4,188)		(4,969)	
Depreciation, amortization and impairment	29	(167,509)		(136,359)	
of which non-recurring	33	(906)			
Increases	29	(74,536)		(58,759)	
of which non-recurring	33	(3,722)			
Finance income	30	52,599	303	36,635	94
Finance costs	30	(187,050)	(3,086)	(140,566)	(4,079)
Income/(expense) from investments	31	3		5,942	
Share of profit/(loss) of investments accounted for using the equity method	31	(3,168)		(2,905)	
Income taxes	32	(71,955)		(53,220)	
Net profit/(loss) from discontinued operations	36	(24,329)			
PROFIT/(LOSS) FOR THE YEAR (A)		**(148,239)**		**69,123**	
Attributable to owners of the parent		(141,242)		72,440	
Attributable to non-controlling interests		(6,997)		(3,317)	
Basic earnings/(loss) per share (Euro)	33	(0.08360)		0.04293	
Diluted earnings/(loss) per share (Euro)	33	(0.08317)		0.04264	
Other comprehensive income/(losses), net of tax (OCI)					
Gains/(losses) from remeasurement of employee defined benefit plans	19-21	(2,053)		1,141	
Total gains/(losses) that will not be reclassified to profit or loss, net of tax	19	**(2,053)**		**1,141**	
attributable to non-controlling interests		**(2)**		**2**	
Effective portion of gains/(losses) on cash flow hedging instruments	4-19	(25,615)		(77,433)	
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method	9				
Exchange gains/(losses) arising on translation of foreign subsidiaries' financial statements	19	13,418		16,008	
Total gains/(losses) that may be subsequently reclassified to profit or loss, net of tax	19	**(12,197)**		**(61,425)**	
attributable to non-controlling interests		**395**		**1,014**	
Total other comprehensive income/(losses), net of tax (B)	19	**(14,250)**		**(60,284)**	
attributable to non-controlling interests		**393**		**1,016**	
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR (A) + (B)		**(162,489)**		**8,839**	
Attributable to owners of the parent		(155,885)		11,140	
Attributable to non-controlling interests		(6,604)		(2,301)	

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(euro/000)

	Note	Share Capital	Reserves and retained earnings	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total
1.1.2018	19	**862,981**	**353,430**	**1,216,411**	**72,088**	**1,288,499**
Business combinations						
Share capital increase						
Share capital increase - non-controlling interests					180	180
Acquisition of non-controlling interests			11,814	11,814	(44,278)	(32,464)
Dividend distribution			(16,874)	(16,874)		(16,874)
Reserve for long-term incentive plan			4,844	4,844		4,844
Reserve for purchase of own shares						
Other changes/roundings			(55)	(55)	1	(54)
Total transactions with owners			**(271)**	**(271)**	**(44,097)**	**(44,368)**
Profit/(Loss) for the year			72,440	72,440	(3,317)	69,123
OCI for the year			(61,300)	(61,300)	1,016	(60,284)
Total comprehensive income for the year			**11,140**	**11,140**	**(2,301)**	**8,839**
31.12.2018	19	**862,981**	**364,299**	**1,227,280**	**25,690**	**1,252,970**
Business combinations					14,157	14,157
Share capital increase						
Share capital increase - non-controlling interests					159	159
Acquisition of non-controlling interests			(1,099)	(1,099)	564	(535)
Dividend distribution			(16,874)	(16,874)		(16,874)
Reserve for long-term incentive plan			2,190	2,190		2,190
Reserve for purchase of own shares			(1,841)	(1,841)		(1,841)
Put option on non-controlling interests			(34,915)	(34,915)	(2,625)	(37,541)
Other changes/roundings			(358)	(358)	10	(348)
Total transactions with owners			**(52,897)**	**(52,897)**	**12,265**	**(40,633)**
Profit/(Loss) for the year			(141,242)	(141,242)	(6,997)	(148,239)
OCI for the year			(14,643)	(14,643)	393	(14,250)
Total comprehensive income for the year			**(155,885)**	**(155,885)**	**(6,604)**	**(162,489)**
31.12.2019	19	**862,981**	**155,517**	**1,018,498**	**31,351**	**1,049,849**

CONSOLIDATED STATEMENT OF CASH FLOWS

(euro/000)

	Note	31.12.2019	31.12.2018
NET CASH FLOWS FROM OPERATING ACTIVITIES	34	**22,242**	**41,682**
- of which related parties		67,097	99,454
Investments in:			
- intangible assets		(60,980)	(37,226)
- property, plant and equipment		(218,039)	(124,069)
- equity investments		(18,107)	(18,343)
- receivables and other financial assets			
- cash out for business combinations, net of cash acquired		(13,509)	(85)
Disposals of:			
- intangible assets			
- property, plant and equipment		308	232
- equity investments		125	16,600
- receivables and other non-current financial assets		20	
CASH FLOWS FROM INVESTING ACTIVITIES		**(310,182)**	**(162,891)**
Change in non-current loans:			
- disbursements		110,880	567,785
- repayments		(5,683)	(61,080)
Change in non-current financial receivables:			
- disbursements		(31,142)	(14,012)
- repayments		275	64,674
Change in current bank loans and credit facilities:			
- disbursements		2,033,211	1,255,041
- repayments		(1,959,044)	(1,200,335)
Change in current bonds/commercial papers:			
- disbursements		1,152,400	1,275,300
- repayments		(1,308,401)	(1,343,539)
Change in current parent company loans			
Changes in payables/receivables to/from investee companies			
Repayment of financial liabilities for leasing IFRS 16		(16,184)	
Change in other current financial liabilities/receivables		18,825	9,398
Change in receivables for trading financial instruments		811	2,214
Change in payables for trading financial instruments		(30)	30
Net capital contributions by non-controlling interests		159	180
Purchase of own shares		(3,495)	
Acquisition of non-controlling interests in subsidiaries		(535)	(32,464)
CASH FLOWS FROM FINANCING ACTIVITIES		**(7,953)**	**523,192**
- of which related parties		(61,974)	(28,258)
NET CASH FLOWS FOR THE YEAR		**(295,893)**	**401,983**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**676,487**	**274,411**
Effect of exchange rate changes on cash and cash equivalents		1,196	93
CASH AND CASH EQUIVALENTS AT END OF YEAR		**381,790**	**676,487**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - FORM, CONTENTS AND OTHER GENERAL INFORMATION

The Parent Company

FINCANTIERI S.p.A. (hereinafter "Fincantieri" or the "Company" or the "Parent Company" and, together with its subsidiaries, the "Group" or the "Fincantieri Group") is a public limited company with its registered office in Via Genova no. 1, Trieste (Italy), and is listed on the Mercato Telematico Azionario (Italy's electronic stock market) organized and managed by Borsa Italiana S.p.A..
As at 31 December 2019, 71.32% of the Company's Share Capital of euro 862,980,725.70 was held by CDP Industria S.p.A.; the remainder of Share Capital was distributed between a number of private investors (none of whom held significant interests of 3% or above) and own shares (of around 0.42% of Shares representing the Parent Company's Share Capital). It should be noted that 100% of the Share Capital of CDP Industria S.p.A. is owned by Cassa Depositi e Prestiti S.p.A. (hereinafter also referred to as "CDP"), 82.8% of whose Share Capital is in turn owned by Italy's Ministry of Economy and Finance.
Furthermore, CDP, with registered office in via Goito 4, Rome, prepares the consolidated financial statements of the larger Group to which the company belongs and which are available on the website www.cdp.it in the section.

Principal activities of the Group

The Group operates through the following three segments:

- Shipbuilding: encompassing the business areas cruise ships and expedition cruise vessels, naval vessels, ferries and mega yachts;
- Offshore and Specialized Vessels: encompassing the design and construction of high-end offshore support vessels, specialized ships, and vessels for offshore wind farms and open ocean aquaculture, as well as innovative products in the field of drillships and semi-submersible drilling rigs;
- Equipment, Systems and Services: encompassing the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, integrated systems and ship accommodation, and the provision of repair and conversion services, logistical support and after-sales services, and supply of solutions for electronic systems and software and for infrastructure and maritime works.

A new organizational structure for the VARD Group was defined in 2018, with a focus on two business units, the Offshore and Specialized Vessels business unit and the Cruise business unit, and full organizational integration with FINCANTIERI S.p.A..
The economic results of VARD's Cruise business unit, coordinated directly by Fincantieri's Merchant Shipping Division, have been allocated to the Shipbuilding operating segment.
Project management for the construction of offshore vessels, specialized ships and vessels for the Norwegian Coast Guard have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore and Specialized Vessels.

Basis of preparation

The Consolidated Financial Statements of the Fincantieri Group have been prepared in compliance with IFRS, meaning all the International Financial Reporting Standards, all the International Accounting Standards ("IAS"), and all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") previously known as the Standing Interpretations Committee ("SIC"), which, as at the reporting date of the Consolidated Financial Statements, had been endorsed by the European Union in accordance with the procedure laid down in Regulation (EC) no. 1606/2002 of the European Parliament and European Council dated 19 July 2002, and in compliance with Legislative Decree 38/2005 and Consob Communication no. 6064293 dated 28 July 2006 concerning disclosures.
The statutory audit of the Consolidated Financial Statements is the responsibility of PricewaterhouseCoopers S.p.A., the firm appointed to perform the statutory audit of the separate financial statements of the Parent Company and its main subsidiaries.
The present Consolidated Financial Statements as at and for the year ended 31 December 2019 were approved by the Company's Board of Directors on 1 April 2020.
The IFRSs have been consistently applied to all the accounting periods presented in the current document.
The Consolidated Financial Statements have been prepared on a going concern basis, since the Directors have verified that there are no financial, operating or other types of indicators that might cast significant doubt upon the Group's ability to meet its obligations in the foreseeable future and particularly within the 12 months from the end of the reporting period based on expected cash flows at the date the financial statements are approved.
The Consolidated Financial Statements have been prepared under the historical cost convention, except for those financial assets and financial liabilities for which fair value measurement is compulsory.

Accounting standards, amendments and interpretations applicable to financial years ended 31 December 2019

A brief description of the accounting standards, amendments and interpretations applicable to financial statements as at and for the year ended 31 December 2019 is provided below. The list excludes those standards, amendments and interpretations concerning matters not applicable to the Group.

First adoption IFRS 16
With effect from 1 January 2019, the new accounting standard IFRS 16 "Leases" came into force, which defines a standard form for recognising leasing contracts, eliminating the distinction between operating and financial leases, and providing for the recognition of an asset for the right to use the good and a liability for the lease.
For first-time application, for the purposes of displaying the impact in the financial statements from the first adoption of IFRS 16, the Group has decided to use the option provided for by IFRS 16, paragraph C5, subsection b) and paragraph C8, on the basis of which the Group recognised at 1 January 2019 a financial liability (euro 88 million) corresponding to the actual value of outstanding payments due for leases in place on the date of first application, discounted using the marginal lending rate on the date of initial application, against a fixed assets of the same amount reflecting the right to use the leased goods, without restating the values for the previous financial years presented for comparison. The weighted average marginal lending rate used to determine the financial liability at 1 January 2019 was 3.1%. In addition, for first-time application, the Group has used the option not to make any adjustments for operating leases which have underlying assets of a low value and for operating leases with a term ending within 12 months of the date of initial application, for which the payments due

[1] Following the reorganization of the Cassa Depositi e Prestiti S.p.A. Group, on 13 December 2019 the entire stake (71.32% of the share capital) in FINCANTIERI S.p.A. was transferred from Fintecna S.p.A. to CDP Industria S.p.A..

will continue to be recognised, as previously done, under operating charges.

In summary, accounting for leasing contracts pursuant to IFRS 16 requires:

- in the balance sheet, the recognition of an asset, representing the right of use of the good (right of use asset), and a liability (lease liability), representing the obligation to make payments under the contract; as permitted by the principle, the right of use asset and the lease liability are recorded in separate items with respect to the other components of the balance sheet;
- in the income statement, under operating costs, the recognition of amortization of right of use assets and, in the financial section, the recognition of interest payable accrued on the lease liability, if not capitalized, instead of the operating lease instalments recorded under operating costs in accordance with the provisions of the accounting standard in force up to the 2018 financial year. The income statement also includes: (i) instalments relating to short-term leases of modest value, as allowed by IFRS 16 in a simplified manner; and (ii) variable lease instalments, not included in the determination of the lease liability (e.g. instalments based on the use of the leased asset);
- in the statement of cash flows, the recognition of the repayments of the principal portion of the lease liability under net cash flow from financing activities. Interest payable is recognised under net cash flow from operating activities, where it is recognised in the income statement.

The following table shows the reconciliation between the commitments for operating leases reported in the 2018 financial statements and the value of the financial liability and related rights of use recorded at the time of first application of IFRS 16:

(euro/000)

	1 January 2019
Commitments for operating leases IAS 17 not discounted to 31 December 2018 (+)	**81,188**
Exceptions to IFRS 16 (-)	(8,698)
- For short-term leases (-)	(8,436)
- For leases of moderate value (-)	(261)
Other changes:	34,914
- adjustments due to different consideration of options for early renewal or termination of contracts	34,914
Financial liabilities for IFRS 16 non-discounted operating leases at 1 January 2019	**107,404**
Discount effect on operating leases (-)	(19,083)
Financial liabilities for IFRS 16 discounted operating leases at 1 January 2019	**88,322**
Financial liabilities for financial leases pursuant to IAS 17 at 01/01/2019 (+)	210
Total IFRS 16 financial liabilities at 1 January 2019	**88,531**
New Rights of Use recognised for transition purposes IFRS 16 (+)	
Assets for operational use:	88,322
a) buildings	62,028
b) state concessions	21,603
c) vehicles and passenger cars	4,146
c) other	545
Assets under financial lease as per IAS 17 at 01/01/2019 (+)	210
Financial liabilities for IFRS 16 discounted operating leases at 1 January 2019	**88,531**
Equity (Retained earnings) at 1 January 2019	**-**

Other accounting standards, amendments and interpretations applicable with effect from 1 January 2019

On 7 June 2017, the IASB issued the interpretation IFRIC 23 – Uncertainty over Income Tax Treatments, which provides indications on how to reflect the effects of uncertainties in tax treatment in the accounts.
On 12 October 2017, the IASB published amendments to IFRS 9 – Prepayment Features with Negative Compensation, aimed at enabling measurement at amortized cost or at fair value through other comprehensive income (OCI) of financial assets with an early repayment option with negative compensation.
On 12 October 2017, the IASB published amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures, to clarify that IFRS 9 applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.
On 12 December 2017, the IASB issued the "Annual Improvements to IFRSs: 2015-2017 Cycle" as part of the program of annual improvements to the standards; most of the changes are clarifications or corrections of existing IFRSs or amendments as a consequence of previous changes to IFRSs.
On 7 February 2018, the IASB published amendments to IAS 19 – Plan Amendment, Curtailment or Settlement, specifying the methods for determining, in the case of a defined benefit plan, the costs relating to pensions for the remainder of the reporting period.
The application of these standards, amendments and interpretations had no impact on the Consolidated Financial Statements as at 31 December 2019.

Accounting standards, amendments and interpretations not yet adopted but for which early application is permitted

On 29 March 2018, the IASB published the revised version of the Conceptual Framework for Financial Reporting and at the same time published a document amending the references to the previous Conceptual Framework in IFRS Standards, providing:

- updated definitions of an asset and a liability;
- a new chapter on measurement, derecognition and disclosure;
- clarification of certain principles when drafting financial statements, such as prudence and substance over form.

The amendments will be effective from 1 January 2020. Early adoption is permitted but the Group has not taken up this option.
On 26 September 2019, the IASB published amendments to IFRS 9, IAS 39 and IFRS 17 - Interest Rate Benchmark Reform, which amend the hedge accounting requirements of IFRS 9 and IAS 39. The amendments will be effective from 1 January 2020. Early adoption is permitted but the Group has not taken up this option. On 31 October 2019, the IASB published amendments to IAS 1 and IAS 8, clarifying the definition of "material information" in order to establish whether or not to include information in the financial statements. The amendments will be effective from 1 January 2020. Early adoption is permitted but the Group has not taken up this option.

Accounting standards, amendments and interpretations already issued but not yet effective

The following is a brief description of the new accounting standards, amendments and interpretations already issued but not yet effective or not yet endorsed by the European Union and therefore not applicable for the preparation of financial statements for annual accounting periods ended 31

December 2019. The list excludes those standards, amendments and interpretations concerning matters not applicable to the Group.
On 22 October 2018, the IASB published amendments to IFRS 3 – Business Combination, with the aim of identifying the principles according to which an acquisition concerns a business or a group of assets, which, as such, do not meet the definition of business provided by IFRS 3.
The amendments will be effective for business combinations that occur from 1 January 2020.

Presentation of financial statements

The Group presents its statement of financial position using a "non-current/current" distinction, its statement of comprehensive income using a classification based on the nature of expenses, and its statement of cash flows using the indirect method. It is also noted that the Group has applied Consob Resolution no. 15519 of 27 July 2006 concerning financial statement formats.
With reference to the Statement of Comprehensive Income, the composition of non-recurring income and expenses has been altered for the clarifications provided in Consob Communication no. 0092543 of 3 December 2015.

Functional and presentation currency

These financial statements are presented in Euro which is the currency of the primary economic environment in which the Group operates. Foreign operations are included in the Consolidated Financial Statements in accordance with the principles set out in the following notes.
The Consolidated Financial Statements, like the accompanying notes, are presented in thousands of euro (euro/000).

If, in certain cases, amounts are required to be reported in a unit other than euro/000, the monetary unit of presentation is clearly specified.

NOTE 2 - SCOPE AND BASIS OF CONSOLIDATION

Scope of consolidation

Appendix 1 presents a list of the companies included in the scope of consolidation, including information about the nature of their business, location of their registered offices, amount of Share Capital, the interests held and the companies which hold them.
During 2019 the following companies were incorporated which are included in the scope of consolidation:

• On 19 February 2019, the Parent Company and the subsidiary Fincantieri SI S.p.A. incorporated the company BOP6 S.c.a.r.l., in which they hold 5% and 95% of the Share Capital respectively. The NewCo, based in Trieste, will install transformers, converters, power factor correction units and harmonic filters at the ITER site in Saint-Paul Lez Durance (France);
• On 13 March 2019, Vard Group AS incorporated the company VBD2, in which it holds 100% of the Share Capital;
• On 29 August 2019, the Parent Company incorporated Fincantieri Dragaggi Ecologici S.p.A. The new company, with registered office in Rome, will carry out environmental eco-dredging and related works;
• On 8 October 2019, the subsidiaries Vard Promar SA and Vard Group AS incorporated Vard Infraestrutura Ltda., in which they hold 99.99% and 0.01% of the Share Capital respectively;
• On 10 October 2019, the subsidiary Seaf S.p.A. incorporated the company M.I. S.p.A., in which it holds 100% of the Share Capital. The new company, with registered office in Trieste, will focus on ship furnishings;
• On 11 October 2019, the subsidiary Marine Interiors Cabins S.p.A. (formerly Marine Interiors S.p.A.) incorporated the company Marine Interiors S.p.A., in which it holds 100% of the Share Capital. The NewCo, with registered office in Trieste, will focus on ship furnishings;
• On 17 October 2019, the subsidiary Seaf S.p.A. incorporated the company Fincantieri Infrastructure Opere Marittime S.p.A., in which it holds 100% of the Share Capital. The new company, with registered office in Trieste, will focus on construction works.

The following main transactions should also be noted:

• On 1 January 2019, the deed of reverse merger by incorporation of Delfi S.r.l. into the subsidiary Issel Nord S.r.l. took effect, whereby all the shares making up the capital of Delfi S.r.l. were cancelled, while those of Issel Nord S.r.l. were assigned to FINCANTIERI S.p.A.;
• On 8 January 2019, the company SIA ICD Industries Latvia, 100% owned by the company Seaonics AS, was liquidated;
• On 11 March 2019 the company Vard Ship Repair Braila SA, 100% owned by Vard Braila SA, was liquidated;
• On 19 March 2019, the subsidiary Marine Interiors Cabins S.p.A. (formerly Marine Interiors S.p.A.) acquired the entire shareholding of Luxury Interiors Factory S.r.l.;
• On 4 July 2019, FINCANTIERI S.p.A. completed the acquisition of a 60% stake in the INSIS group, a solution provider in the field of physically and logically integrated security, operating in domestic and foreign markets both directly and as a technology partner of large industrial groups. The purchase price of the investment is euro 23 million. The agreement also provides that Fincantieri may exercise a call option on the remaining 40% and the minority third party shareholder may exercise a put option on the same share;
• On 1 November 2019, Vard Group AS increased its shareholding in Vard Acqua Sunndal AS from 98.21% to 100%;
• In 2019, Fincantieri, through the subsidiary Fincantieri Oil & Gas, subscribed a Share Capital increase in Vard Holdings Ltd. for euro 88 million and purchased more shares in the VARD group. As a result of these operations, the stake increased from 97.22% at 31 December 2018 to 98.22% at 31 December 2019.

With regard to movements in shareholdings consolidated using the equity method, the following transaction is reported:

• On 29 August, the Parent Company became a shareholder of Decomar S.p.A. with a 20% stake.

The Consolidated Financial Statements at 31 December 2019 have not been affected by any significant transactions or unusual events except as reported in the Notes.

Basis of consolidation

Subsidiaries
Consolidated financial statements incorporate the financial statements of all entities (subsidiaries) controlled by the Group.
The Group controls an entity (including structured entities) when it is exposed, or has rights, to variable returns from its involvement with this entity and has the ability to affect those returns through its power over the entity.
Subsidiaries are consolidated from the date that control is obtained until the date control ceases. Costs incurred during the acquisition process are expensed in the year incurred.
Assets and liabilities, income and expenses arising from transactions between companies included in the consolidation are eliminated in full; also eliminated are profits and losses arising from intragroup transfers of fixed assets, profits and losses arising on the intragroup sale of assets that are still in inventory of the purchasing company, impairment and impairment reversals relating to investments in consolidated companies and intragroup dividends. The portion of capital and reserves attributable to non-controlling interests in consolidated subsidiaries and the portion of profit or loss for the year attributable to non-controlling interests are identified separately within the financial statements. Losses attributable to non-controlling interests that exceed the non-controlling interest in an investee's capital are allocated to equity attributable to non-controlling interests.
Changes in a parent's ownership interest in a subsidiary that do not result in acquisition/loss of control are accounted for as equity transactions. The difference between the price paid and the share of net assets acquired is recorded against equity attributable to the parent as gains/losses arising on the sale of shares to non-controlling interests.
If the group loses control of a subsidiary, it recalculates the fair value of the investment retained in the former subsidiary at the date control is lost, recognizing any difference in profit or loss as gains or losses attributable to the parent. This value will also correspond to the remaining investment's initial carrying amount classified as an investment in an associate or joint venture or as a financial asset. Lastly, the group will account for all amounts previously recognized in other comprehensive income for that subsidiary, in the same way as if the parent had disposed of the related assets or liabilities directly. This may result in a reclassification of such gains or losses from equity to profit or loss.

Appropriate adjustments are made to the financial statements of subsidiaries to ensure conformity with the Group's accounting policies.
The reporting date of subsidiary companies is aligned with that of the Parent Company; where this is not the case, subsidiaries prepare specific financial statements for use by the Parent Company.

Associates
Associates are those entities over which the Group has significant influence, which is usually presumed to exist when it holds between 20% and 50% of the entity's voting power. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method described below.
The carrying amount of these investments reflects the Group's share of the associate's equity, adjusted, if necessary, to reflect the application of IFRSs, as well as the higher values attributed to assets and liabilities and any goodwill identified on acquisition.
Appropriate adjustments are made to the financial statements of investments accounted for using the equity method to ensure conformity with the Group's accounting policies.
The Group's share of profits or losses is recognized from the date significant influence is acquired until the date such influence ceases. If, as a result of losses, an associate reports negative equity, the carrying amount of the investment is reduced to zero and the Group recognizes a liability for the additional losses only to the extent that it has incurred legal or constructive obligations or made payments on behalf of the associate. Changes in the equity of investments accounted for using the equity method which are not represented by profits or losses reported through its income statement, are recognized as an adjustment to consolidated equity.
Unrealized profits and losses arising from transactions between associates accounted for using the equity method and the Parent Company or its subsidiaries are eliminated to the extent of the Group's interest in the associate; unrealized losses are eliminated unless they represent an impairment loss.

Joint arrangements
The Group applies IFRS 11 to classify investments in joint arrangements, distinguishing them between joint operations and joint ventures according to the contractual rights and obligations of each investor. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement, while a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
Interests in joint ventures are accounted for using the equity method, while in the case of joint operations, each party to the joint operation recognizes the specific assets to which it is entitled and the specific liabilities for which it has obligations, including its share of any assets and liabilities held/incurred jointly, and its share of the revenue and expenses under the terms of the joint arrangement.
Appropriate adjustments are made to the financial statements of joint ventures to ensure conformity with the Group's accounting policies.

Translation of the financial statements of foreign operations
The financial statements of subsidiaries and associates are prepared in their "functional currency", being the currency of the primary economic environment in which they operate. For consolidation purposes, the financial statements of each foreign company are translated into Euro, which is the Group's functional currency and the presentation currency for its Consolidated Financial Statements.
The criteria for translating the financial statements of companies expressed in a currency other than the Euro are as follows:

- assets and liabilities are translated using the closing exchange rate at the year-end reporting date;
- income and expenses are translated using the average exchange rate for the reporting period/year;
- the "currency translation reserve" reports the differences arising on the income statement's translation at an average rate as opposed to a closing rate, as well as the differences arising on the translation of opening equity at a different rate to that applied to closing equity;
- goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated initially at the acquisition- date exchange rate and subsequently adjusted to the closing exchange rate.

The exchange rates used to translate the financial statements of Group companies with a "functional currency" other than the Euro are as follows:

	2019		2018	
	12-month average	Closing rate at 31.12	12-month average	Closing rate at 31.12
US Dollar (USD)	1.1195	1.1234	1.1810	1.1450
Australian Dollar (AUD)	1.6109	1.5995	1.5797	1.6220
UAE Dirham (AED)	4.1113	4.1257	4.3371	4.2050
Brazilian Real (BRL)	4.4134	4.5157	4.3085	4.4440
Norwegian Krone (NOK)	9.8511	9.8638	9.5975	9.9483
Indian Rupee (INR)	78.8361	80.1870	80.7332	79.7298
Romanian Leu (RON)	4.7453	4.7830	4.6540	4.6635
Chinese Yuan (CNY)	7.7355	7.8205	7.8081	7.8751
Swedish Krona (SEK)	10.5891	10.4468	10.2583	10.2548

Business combinations

Business combinations under which the acquirer obtains control of the acquiree are accounted for in accordance with the provisions of IFRS 3 - Business Combinations, using the acquisition method. The cost of acquisition is represented by the acquisition-date fair value of the assets acquired, the liabilities assumed, and equity instruments issued. The identifiable assets acquired, and liabilities and contingent liabilities assumed are recognized at their acquisition-date fair values, except for deferred tax assets and liabilities, assets and liabilities for employee benefits and assets held for sale, which are recognized in accordance with the applicable accounting standards for these items. The difference between the cost of acquisition and the fair value of the assets and liabilities acquired is recognized, if positive, under intangible assets as goodwill or, if negative, after reassessing the correct measurement of the fair values of the assets and liabilities acquired and the cost of acquisition, it is recognized directly in profit or loss as income. Acquisition-related costs are accounted for as expenses in the period incurred.

The cost of acquisition includes contingent consideration, recognized at its acquisition-date fair value. Subsequent changes in fair value are recognized in profit or loss or other comprehensive income if the contingent consideration is a financial asset or liability. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for directly in equity. If, in a business combination, control is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss in profit or loss.

Acquisitions of non-controlling interests in entities which are already controlled by the acquirer or disposals of non-controlling interests that do not involve a loss of control are treated as equity transactions; therefore, any difference between the cost of acquisition/disposal and the related share of net assets acquired/sold is accounted for as an adjustment to the Group's equity.

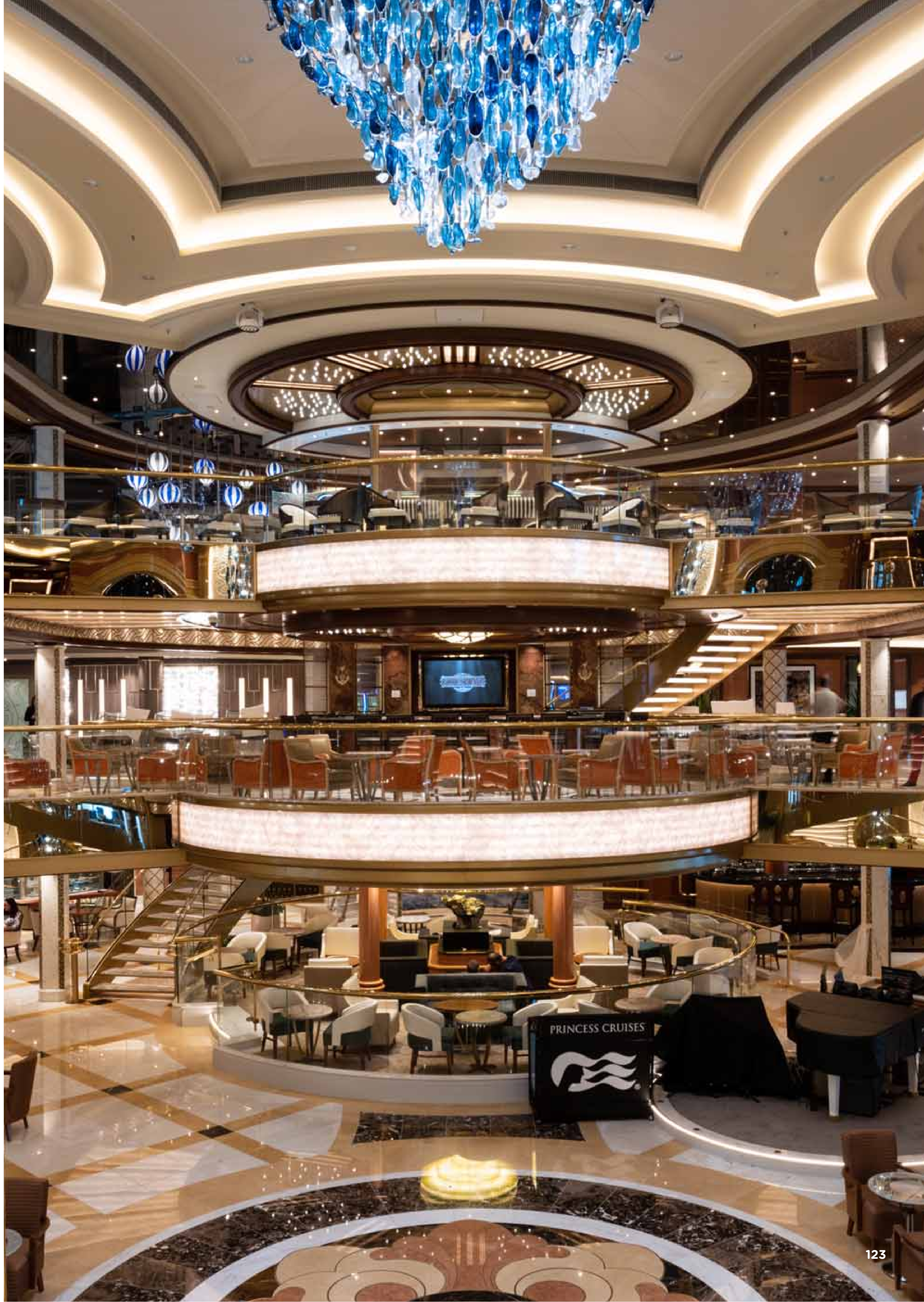
When controlling interests of less than 100% are acquired, only the portion of goodwill attributable to the Parent Company is recognized. The value of non-controlling equity interests is determined in proportion to the non-controlling interest in the acquiree's net identifiable assets.

Acquisition-related costs are recognized in profit or loss on the date the services are received.

National tax consolidation

Since 2013, FINCANTIERI S.p.A., together with its subsidiaries Isotta Fraschini Motori S.p.A. and Fincantieri Oil & Gas S.p.A., have partaken in the tax regime governed by art. 117 et seq. of Presidential Decree 917/1986, namely National Tax Consolidation, headed up by Cassa Depositi e Prestiti S.p.A..

The National Tax Consolidation agreement was renewed in 2019 for another three years until financial year 2021.



NOTE 3 - ACCOUNTING STANDARDS

1. Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, that are controllable and able to generate future economic benefits. Such assets are carried at purchase cost and/or internal production cost, including expenses directly attributable to preparing assets for their intended use, less accumulated amortization and any accumulated impairment losses. Any borrowing costs incurred during and for the development of an intangible asset are capitalized as part of the asset's cost. Assets qualifying as "assets acquired in a business combination" are recognized separately only if their fair value can be measured reliably. Intangible assets are amortized unless they have an indefinite useful life. Amortization commences when the asset is available for use and is allocated on a systematic basis over its useful life. The criteria used to identify and determine any impairment losses for intangible assets can be found in paragraph 3 below.

1.1 Goodwill
Goodwill is not amortized but is tested annually for impairment, or whenever specific events or changed circumstances indicate that it might be impaired. It is not permitted to reverse a previously recognized impairment loss. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.
On loss of control of a subsidiary, the gain or loss on disposal takes into account the residual value of previously recognized goodwill.

1.2 Concessions, licenses, trademarks and similar rights
Concessions, licenses and similar rights, acquired in a business combination, are recognized at their acquisition-date fair values and systematically amortized over the shorter of their expected period of use and the length of the right's ownership. Trademarks are considered to have an indefinite useful life and so are not amortized, but are tested annually for impairment, or whenever specific events or changed circumstances indicate that they might be impaired.

1.3 Client relationships and order backlog
Client relationships and order backlog are recognized only if acquired in a business combination.
Client relationships are amortized over the expected life of such relationships (10-20 years).
The order backlog represents the expected residual value of orders existing at the acquisition date. This value is amortized on a straight-line basis over expected useful life.

1.4 Research and development costs
Expenditure on research is recognized as an expense when it is incurred. Expenditure on developing new products and processes is capitalized and recognized as an intangible asset only if all the following conditions are satisfied:

- the development project is clearly identified and the related costs are identifiable and can be measured reliably;
- the technical feasibility of the project can be demonstrated;
- the intention to complete the project and sell the intangible assets generated can be demonstrated;
- a potential market exists for the intangible asset or, if it is used internally, the asset is of demonstrable utility;
- adequate technical and financial resources are available to complete the project.

Capitalized development costs are amortized over the period the expected future income from the project will arise. Useful life varies depending on the project and ranges from 5 to 10 years.

1.5 Industrial patents and intellectual property rights
Amortization of industrial patents and intellectual property rights is calculated on a straight- line basis so as to allocate the cost incurred for acquiring the rights over their estimated useful life or the term of the related contracts, if shorter. Amortization begins when the acquired rights become effective. The cost of software licenses is amortized on a straight-line basis over 3 years.

1.6 Incremental costs to obtain contracts and fulfil contracts
The incremental costs to obtain the contract are the costs an entity incurs to obtain the contract with the customer that it would not have incurred if it had not obtained the contract (for example, a sales commission). These costs can be capitalized if they are expected to be recovered.
Costs to perform the contract are capitalized only if they meet all the following conditions: i) they are directly related to the contract or to a planned contract, which the company can specifically identify; ii) they allow the company to dispose of new or increased resources to be used to perform (or continue to perform) the contractual obligations; iii) they are expected to be recovered.
The assets recognized from the capitalization of the incremental costs to obtain contracts and to fulfil contracts are amortized systematically and in a manner corresponding to the transfer to the customer of the goods or services to which the asset refers.

2. Rights of use

The new accounting standard IFRS 16 "Leases" defines a standard form for recognising leasing contracts, eliminating the distinction between operating and financial leases, and providing for the recognition of an asset for the right to use the good and a liability for the lease. A contract is, or contains, a lease if, in return for consideration, it gives the right to control the use of a specified asset for a period of time.
Assets for the right to use leased assets are initially valued at cost, and subsequently depreciated over the term of the lease contract defined during the analysis, taking into account any extension or termination options that can reasonably be exercised.
The cost of right to use assets includes the initially recognized value of the lease liability, the initial direct costs incurred, the estimate of any restoration costs to be incurred at the end of the contract and the advance payments relating to the lease made at the date of first transition net of any lease incentives received.
The related liabilities for leased assets are initially measured at the present value of the payments due for the fixed lease payments to be made at the date of signing the lease agreement and for the exercise price of the purchase option and redemption option if reasonably exercisable, discounted using the interest rate implicit in the lease, if determinable, or the marginal lending rate at the date. Liabilities for leased assets are subsequently increased by the interest that accrues on these liabilities and decreased in correlation with the lease payments.
Liabilities for leased assets are in any case

restated to take account of changes in the payments due for the lease, adjusting the right of use asset for the same value. However, if the carrying amount of the asset underlying the right of use is zero and there is a further reduction in the valuation of the lease liability, that difference is recognized in profit or loss.
In the event of changes in the lease agreement, these changes are accounted for as a separate lease when rights of use are added to one or more underlying assets and the lease consideration increases by an amount that reflects the separate price for the increase in the asset leased. In relation to changes that are not accounted for as a separate lease, the lease liability is restated by discounting the lease payments due using a revised discount rate, based on the new lease term. These adjustments to liabilities are accounted for by making a corresponding change in the asset underlying the right of use, recording any gain or loss relating to the partial or total termination of the contract in the income statement.
No rights of use assets are recognized in relation to: i) short-term leases; ii) leases where the underlying asset is of low value. Payments due for these types of lease contracts are recognized as operating expenses on a straight-line basis.
The income statement recognizes, under operating costs, depreciation of right of use assets and, in the financial section, the interest payable accrued on the lease liability, if not capitalized. The income statement also includes: (i) instalments relating to short-term leases of modest value, as allowed by IFRS 16 in a simplified manner; and (ii) variable lease instalments, not included in the determination of the lease liability (e.g. instalments based on the use of the leased asset).

3. Property, plant and equipment

Items of property, plant and equipment are stated at their historical purchase or production cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to preparing the assets for their intended use, as well as any costs of dismantling and removing the assets which will be incurred as a result of contractual obligations to restore assets to their original condition. Any borrowing costs incurred during and for the development of an item of property, plant and equipment are capitalized as part of the asset's cost.
Assets under concession are stated at cost, including estimated dismantling and removal costs, arising as a consequence of contractual obligations to restore an asset to its original condition, less accumulated depreciation calculated over the shorter of the asset's estimated useful life and the term of the individual concessions.
Expenditure incurred after acquiring an asset and the cost of replacing certain parts is capitalized only if such expenditure increases the asset's future economic benefits. Routine repair and maintenance costs are recognized as expenses in the period incurred. If the costs of replacing certain parts of an asset are capitalized, the residual value of the parts replaced is charged to profit or loss.
Depreciation is charged on a straight-line basis so as to depreciate assets over their useful lives. If a depreciable asset consists of separately identifiable parts, whose useful lives differ significantly from other parts of that asset, each part is depreciated separately in accordance with the component approach. The Group has estimated the following useful lives for its various categories of property, plant and equipment:

CATEGORIES	Useful life (years)
Industrial buildings and dry docks	33 - 47
Plant and machinery	7 - 25
Equipment	4 - 12
Assets under concession	Useful life or term of concession, if shorter
Leasehold improvements	Useful life or term of lease, if shorter
Other assets	4 - 33

Land is not depreciated. The residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at least at every financial year-end.
The criteria used to identify and determine any impairment losses for property, plant and equipment can be found in paragraph 3 below.

4. Impairment of non-financial assets

Property, plant and equipment and intangible assets are reviewed at the end of each reporting period to identify any indication of impairment. If any such indication exists, the recoverable amount of such assets is estimated and if this is lower than the carrying amount, the difference is recognized in profit or loss as an impairment loss.
Intangible assets with indefinite useful lives, such as goodwill, are not amortized but are tested annually for impairment, or more often, whenever there are signs that such assets might be impaired.
The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, defined as the present value of the future cash flows expected to be derived from that asset. If an asset does not generate cash inflows that are largely independent of the cash inflows from other assets, its value in use is determined with reference to the cash-generating unit to which the asset belongs. When calculating an asset's value in use, its expected cash flows are discounted using a discount rate reflecting current market assessments of the time value of money for the period of investment and risks specific to that asset. Value in use is determined, net of tax, using a post-tax discount rate, since this method produces broadly similar values to those obtained by discounting pre-tax cash flows at a pre-tax discount rate. An impairment loss is recognized in profit or loss when an asset's carrying amount is higher than its recoverable amount. If the reasons for an impairment loss cease to exist, it may be reversed in whole or in part through profit or loss, except in the case of goodwill, whose impairment can never be reversed; if an impairment loss is reversed, the asset's new carrying amount may not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized in the past.

5. Other investments

Investments in companies other than subsidiaries, associates and joint ventures (generally where the interest is less than 20%) are classified as financial assets carried at fair value, which normally corresponds, during first inclusion, to the amount of the operation inclusive of the transaction costs directly attributed to it. Subsequent changes in fair value are recognized in profit or loss (FVPL) or, if the option envisaged by the standard is exercised, in other comprehensive income (FVOCI) under the item "FVOCI reserve". For

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

investments valued at FVOCI, impairment losses are not recorded in comprehensive income, neither are the accumulated profits or losses if the investment is sold. The dividends distributed by the investee are recorded in comprehensive income only when:

a) the Group's right to receive the dividend matures;

b) it is probable that the economic benefits arising from the dividend will flow to the Group;

c) the amount of the dividend can be reliably measured.

6. Inventories and advances

Inventories are recorded at the lower of purchase or production cost and net realizable value, defined as the estimated selling price in the ordinary course of business less selling costs. The cost of inventories of raw, ancillary and consumable materials and finished products and goods is determined using the weighted average cost method.
The cost of production includes raw materials, direct labor costs and other costs of production (allocated on the basis of normal operating capacity). Borrowing costs are not included in the value of inventories.
Slow-moving and obsolete inventories are suitably written down to align their value with the net realizable amount.

7. Construction contracts

The assets and liabilities for construction contracts are recognized depending on the method for transferring control of the good or service to the customer. If control is transferred gradually as the good is built or the service is rendered, the assets are recognized with reference to the value of the agreed contractual consideration plus any grants available under specific laws which have reasonably accrued at the period-end reporting date, in accordance with the cost-to-cost method, taking into account the stage of completion of the contract and any expected risks. If, however, control is transferred at the moment of final delivery of the good or completion of all the services contracted, the assets are recognized at purchase cost.
If two or more contracts are concluded at the same time (or almost at the same time) with the same customer (or related parties of the customer), they are recorded as a single contract when they meet one or more of the following criteria: i) they were negotiated together for a single business purpose, ii) the contract prices are interdependent, or iii) the goods or services promised in the contract represent a single obligation to the customer.
A contract is recognized as a single asset when it identifies a single contractual obligation, i.e. if the promise is to transfer one single good/service to the customer or a series of goods/services that are substantially the same are transferred to the customer over a period of time using the same methods. If different contractual obligations are identified in the contract, these are recognized as separate assets arising from the same contract with the customer. If the original contract i) provides for the construction of an additional asset at the option of the customer or ii) may be amended to include the construction of an additional asset, whose price is closely interrelated to the original contract, the construction of the additional asset is treated as a combined part of the original contract.
The stage of completion is measured by calculating the proportion that contract costs incurred for work performed to the reporting date bear to the estimated total costs for each contract.
If it is expected that the completion of a contract may give rise to a loss at the gross margin level, this is recognized in full in the period in which it becomes reasonably foreseeable.
Assets for construction contracts are reported as the costs incurred plus profit recognized to date, net of the related liabilities, i.e. the progress billings issued and any estimated future losses. The calculation is performed on a contract-by-contract basis. If the difference arising under this calculation is positive, it is classified as an asset under “assets arising from contracts with customers” and if it is negative, the difference is classified as a liability under “Construction contracts – liabilities”.
Any borrowing costs incurred for specific loans during and for the development of construction contracts are treated as expenses of the specific project.
Shipbuilding contracts are closed for accounting purposes three months after a vessel's delivery; in the case of vessels for government defense forces (naval vessels), the delivery date is the issue date of the acceptance report.

8. Financial liabilities

Financial liabilities, inclusive of loans and borrowings, trade payables, other payables and other liabilities, other than derivatives, are initially recognized at fair value and then measured at amortized cost, less repayments of principal already made.
Payables and other liabilities are classified as current liabilities, unless the Group has a contractual right to extinguish its obligations more than twelve months from the reporting date. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.
For derivative liabilities, please refer to paragraph 8.4.

8.1 Reverse factoring

In order to ensure easier access to credit for its suppliers and given the importance of the supply chain to the shipbuilding industry, the Parent Company has entered into factoring agreements, typically in the technical form of reverse factoring. Based on these agreements, the supplier has the discretionary option to sell receivables due from the Parent Company or some subsidiaries to a finance company and receive the amount owed before the due date; in addition, the supplier also has the option to agree with the Parent Company to extend the due date beyond that shown in the invoice. Such extensions can be either interest-bearing or non-interest bearing. Since the primary obligation is still to the supplier, the related liability retains its nature and so continues to be classified in trade payables.

9. Financial assets

The Group classifies financial assets according to the categories identified by IFRS 9:

- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income (FVOCI);
- financial assets measured at fair value through profit or loss (FVTPL).

9.1 Financial assets measured at amortized cost

Financial assets are classified in this category if both of the following conditions are met: (i) the asset is held within a business

model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. These mainly concern trade receivables and loans. Except for trade receivables, which do not contain a significant financial component, other receivables and loans are initially recognized at fair value. Trade receivables which do not contain a significant financial component are recognized at the price defined for that transaction (determined as per IFRS 15 Revenue from contracts with customers). The assets belonging to this category are subsequently measured at amortized cost using the effective interest method. Impairment losses for these receivables is determined using a forward-looking approach with a three-step model:
1) recognition of expected credit losses that have had no increase in credit risk in the first 12 months since initia recognition of the asset;
2) recognition of lifetime expected credit losses at the moment the credit risk increased significantly since initial recognition of the asset; interest revenue is calculated on gross carrying amount;
3) recognition of further lifetime expected credit losses at the moment in which the loss occurred; interest revenue is calculated on the net carrying amount (the amortized cost is reviewed because the internal rate of return changes since the trigger event affects cash flows).

9.2 Financial assets measured at fair value through other comprehensive income (FVOCI)
Financial assets are classified in this category if both of the following conditions are met: (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (ii) the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This category also includes equity instruments (investments in companies in which the Group exerts neither control nor considerable influence) for which the Group applies the option permitted by this standard to measure these instruments at fair value with an effect on overall profitability (see section 4 above).
These assets are initially recognized at fair value; in subsequent measurements, the value calculated during recognition is updated again and any changes in fair value are recognized in other comprehensive income. Any impairment losses, interest revenues and gains or losses from exchange rate differences are recorded in profit and loss.

9.3 Financial assets measured at fair value through profit or loss (FVTPL)
All financial assets that do not meet the conditions, in terms of business model or cash flow characteristics, for measurement at amortized cost or at fair value through other comprehensive income are classified in this category. These are mainly derivatives; this category includes listed and unlisted equity instruments that Group has not irrevocably decided to classify as FVOCI at initial recognition or during transition. The assets falling under this category are classified among current and non-current assets depending on their maturity and reported at fair value at the moment of their initial recognition. During subsequent measurement, the profits and losses arising from the fair value measurements are recorded in the consolidated income statement for the period in which they were recognized.

9.4 Impairment
Impairment of financial assets measured at amortized cost is calculated on the basis of an expected credit loss model. According to this model, financial assets are classified as at step 1, step 2 or step 3 depending on their level of credit worthiness since initial recognition.
In particular:

- Stage 1: includes (i) newly acquired receivables, (ii) receivables that have not had a significant worsening of the credit risk since the initial recognition date and (iii) receivables with low credit risk.
- Stage 2: includes receivables that, while not non-performing, have had a significant worsening of the credit risk since the initial recognition date.
- Stage 3: includes non-performing receivables.

For receivables belonging to stage 1, impairments are equal to the expected credit loss calculated over a period of up to one year. For receivables belonging to stages 2 or 3, impairments are equal to the expected credit loss calculated over the entire duration of the exposure.
The criteria for determining impairment on receivables are based on discounting the expected cash flows for the principal and the interest. To calculate the current value of flows, the essential elements are those identifying the estimated receipts, the related receipt dates and the discounting rate to be applied. In particular, the loss is the difference between the recognition value and the current value of the estimated cash flows, discounted at the original interest rate of the financial asset.
These assets are classified as current assets, except for the portion falling due after more than 12 months, which is included in non-current assets.

9.5 Derivatives
The derivatives used by the Fincantieri Group are intended to hedge its exposure to currency risk primarily on sale contracts and, to a lesser extent, on procurement contracts denominated in currencies other than the functional currencies, and its exposure to interest rate risk on loans and to price risk relating to certain commodities.
Derivative instruments are initially recognized at fair value on the derivative contract's inception date. Following initial recognition, changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognized as an operating or financial component of the income statement according to the nature of the instrument. If derivative instruments do qualify for hedge accounting, any subsequent changes in their fair value are treated in accordance with the specific rules of the IFRS 9 set out below. For each derivative financial instrument designated as a hedging instrument, the Group must formally document the relationship between hedging instruments and hedged items, as well as its risk management objectives, hedging strategy and verifying hedge effectiveness. The effectiveness of each hedge must be assessed, both at hedge inception and on an ongoing basis. A hedging transaction is usually regarded as highly "effective" if, at inception and during its life, the change in the hedged item's fair value, in the case of fair value hedges, and in the expected future cash flows, in the case of cash flow hedges, substantially offsets the change in fair value of the hedging instrument.
Changes in the fair value of derivative assets or liabilities that qualify as fair value hedges are recognized in profit or loss, along with any changes in the fair value of the hedged item.
In the case of cash flow hedges intended

to offset the cash flow risks relating to a highly probable forecast transaction, fair value changes after initial recognition in the effective portion of the derivative hedging instrument are recognized in "Other comprehensive income" and included in a separate equity reserve. Amounts recognized through other comprehensive income are reclassified from equity to profit or loss, among the operating items, in the same period that the hedged forecast cash flows affect profit or loss. If the hedge is not perfectly effective, the fair value change in the ineffective portion of the hedging instrument is immediately recognized in profit or loss. If, during the life of a derivative hedging instrument, the expected transaction for which hedging was made is no longer expected to occur, the portion of the "reserves" relating to this instrument is immediately reclassified to profit or loss for the period. Conversely, if the derivative instrument is sold or no longer qualifies as an effective hedge, the portion of the "reserves" representing changes in the instrument's fair value recognized up until then through other comprehensive income remains separately in equity until the hedged forecast transaction occurs, at which point it is reclassified to profit or loss. The fair value of financial instruments quoted on public markets is determined with reference to quoted prices at the end of the period. The fair value of unquoted instruments is measured with reference to financial valuation techniques: in particular, the fair value of interest rate swaps is measured by discounting the expected future cash flows, while the fair value of foreign currency forwards is determined on the basis of market exchange rates at the reporting date and the rate differentials expected between the currencies concerned.
Financial assets and liabilities measured at fair value are classified in the three hierarchical levels described below, in order of the priority attributed to the inputs used to determine fair value. In particular:

- Level 1: financial assets and financial liabilities whose fair value is determined using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: financial assets and financial liabilities whose fair value is determined using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (primarily: market exchange rates at the reporting date, expected rate differentials between the currencies concerned and volatility of the relevant markets, interest rates and commodity prices);
- Level 3: financial assets and financial liabilities whose fair value is determined using inputs not based on observable market data.

Financial assets are derecognized when the rights to receive cash flows from the financial asset expire and the company has transferred substantially all the risks and rewards of ownership and the related control of the financial asset.

10. Grants from Government and other public entities

Government grants are recognized in the financial statements when there is reasonable assurance that the recipient will comply with the conditions attaching to them and that the grants will be received.

10.1 Capital grants

Government grants related to property, plant and equipment are classified as deferred income under non-current "Other liabilities". This deferred income is then recognized as income in profit or loss on a straight-line basis over the useful life of the asset for which the grant was received.

10.2 Grants related to income

Grants other than those related to assets are credited to profit or loss as "Other revenue and income".

11. Cash and cash equivalents

Cash and cash equivalents include cash on hand, current accounts and demand deposits with banks and other highly liquid short-term investments that are readily convertible into cash and which are subject to an insignificant risk of change in value.

12. Employee benefits

Post-employment benefits are defined on the basis of formal and informal arrangements which, depending on their characteristics, are classified as "defined contribution" plans and "defined benefit" plans. In defined contribution plans, the employer's obligation is limited to the payment of contributions to the state or to a trust or separate legal entity (fund) and is determined on the basis of the contributions due.
Liabilities for defined benefit plans, net of any plan assets, are determined using actuarial techniques and are recognized on an accrual basis over the period of employment needed to obtain the benefits. Defined benefit plans include the employee severance benefit, payable to employees of the Group's Italian companies under article 2120 of the Italian Civil Code, that accrued before the reform of this benefit in 2007. The amount recognized in the financial statements is calculated on an actuarial basis using the projected unit credit method; the discount rate used by this method to calculate the present value of the defined benefit obligation reflects the market yield on bonds with the same maturity as that expected for the obligation. The calculation relates to the employee severance benefit already accrued for past service and, in the case of Italian subsidiaries with less than 50 employees, incorporates assumptions concerning future salary levels. Further to the reform of employee severance benefit under Italian Law 296 dated 27 December 2006, the actuarial assumptions no longer need to consider future salary levels for Italian subsidiaries with more than 50 employees. Any actuarial gains and losses are recorded in the "Valuation reserves" forming part of equity and immediately recognized in the statement of comprehensive income.
For Italian employee severance benefits that have accrued after 1 January 2007 (which are treated like defined contribution plans), the employer's obligation is limited to the payment of contributions to the state or to a trust or separate legal entity (fund) and is determined on the basis of the contributions due. There are no additional obligations for the Company to pay further amounts.

13. Share-based incentive plans

Medium/long-term share-based incentive plans are a component of remuneration for the beneficiaries; therefore, for plans that entail remuneration in equity instruments, the cost is represented by the fair value of these instruments at the grant date and is recognized in "Personnel costs", over the period between the grant date and the maturity date, against a specially created Equity reserve. Changes in fair value after the grant date have no effect on the initial value. The estimate of the number of rights that will mature until expiry is updated at the end of each period. The change in the estimate is reflected in the adjustment of the Equity reserve for the share incentive plan, against "Personnel costs".

14. Provisions for risks and charges

Provisions for risks and charges relate to costs and expenses of a specific nature of certain or probable existence, but whose timing or amount are uncertain as at the reporting date. Provisions are recognized when: i) a present legal or constructive obligation is likely to exist as a result of a past event; ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; iii) the amount of the obligation can be estimated reliably.
The amount recognized as a provision is the best estimate of the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time; provisions for onerous contracts are recognized at the lower of the cost required to settle the obligation, net of the expected economic benefits arising from the contract, and the cost of terminating the contract.
Where the effect of the time value of money is material and the obligation settlement date can be estimated reliably, the amount of the provision is determined by discounting the expected cash outflows to present value using the average rate on company debt that takes account of the risks specific to the obligation; any increase in the amount of a provision due to the effect of the time value of money is recognized in the income statement under "Finance costs".
Contingent liabilities, meaning those relating to obligations that are only possible, are not recognized but are disclosed in the section of the notes to the financial statements reporting commitments and risks.

15. Revenue, dividends, finance income and costs

Revenue from contracts with customers are recognized based on the time control of the goods and/or services is transferred to the customer. If control is transferred gradually as the good is built or the service is rendered, revenues are recognized over time, i.e. as the activities gradually progress. If, however, control is not transferred gradually as the good is built or the service rendered, revenues are recognized at a point in time, i.e. at the moment of final delivery of the good or completion of service provision. The Group has chosen to measure the percentage of completion of the contracts over time using the cost-to-cost method. When it is probable that total lifetime contract costs will exceed total lifetime contract revenue, the expected loss is immediately recognized as an expense in the income statement.
Revenue earned up to the reporting date from contracts denominated in a currency other than the functional currency is translated into the functional currency using: i) the hedged exchange rate (if currency risk has been hedged - see Section 8.5 above) or ii) in the absence of hedging transactions, the actual exchange rate used for the part of the contract already billed and the period-end rate for the part still to be billed.
Retentions or other amounts which can be contractually reclaimed by customers are not recognized until any post-delivery obligations have been fully satisfied.
Dividends received from investee companies not consolidated on a line-by-line basis and with the equity method, are recognized in profit or loss when:

a) the Group's right to receive the dividend matures;
b) it is probable that the economic benefits arising from the dividend will flow to the Group;
c) the amount of the dividend can be reliably measured.

Finance income and costs are recognized in profit or loss in the period in which they accrue.

16. Income taxes

Income taxes represent the sum of current and deferred taxes.
Current income taxes are calculated on taxable profit for the year, using tax rates that apply at the end of the reporting period.
Deferred income taxes are income taxes that are expected to be paid or recovered on temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax liabilities are usually recognized for all taxable temporary differences, while deferred tax assets, including those for carry forward tax losses, are recognized to the extent it is probable that taxable profit will be available against which the temporary differences can be recovered. No deferred tax liabilities are recognized for temporary differences relating to goodwill.
Deferred tax liabilities are recognized on taxable temporary differences relating to investments in subsidiaries, associates and joint ventures, except in cases when both the following conditions apply: (i) the Group is able to control the timing of the reversal of such temporary differences and (ii) the temporary differences are unlikely to reverse in the foreseeable future.
Deferred income taxes are determined using tax rates that are expected to apply to the period when the related differences are realized or settled.
Current and deferred income taxes are recognized in profit or loss with the exception of taxes relating to items which are directly debited or credited to equity, in which case the tax effect is also recognized directly in equity. Deferred tax assets and liabilities are offset if, and only if, income tax is levied by the same taxation authority, there is a legally enforceable right of offset and the outstanding net balance is expected to be settled.
Taxes not related to income (levies), such as property tax, are reported in "Other costs".

17. Earnings per share

17.1 Basic earnings per share
Basic earnings per ordinary share are calculated by dividing profit or loss attributable to owners of the Parent Company by the weighted average number of ordinary shares outstanding during the period, excluding own shares.

17.2 Diluted earnings per share
Diluted earnings per ordinary share are calculated by dividing profit or loss attributable to owners of the Parent Company by the weighted average number of ordinary shares outstanding during the period, excluding own shares, and adjusting to take account of the number of potential shares that could be issued.

18. Own shares

Own shares are recognized as a reduction of Equity. The original cost of the own shares and the income arising from sale at a later date are shown as movements in Equity.

19. Subjective accounting estimates and judgements

Preparation of financial statements requires management to apply accounting policies and principles that, in some circumstances,

are based on difficult, subjective estimates and judgements based on past experience and other assumptions deemed to be reasonable and realistic under the related circumstances. The application of such estimates and assumptions affects the amounts reported in the financial statements, namely the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows, and in the accompanying disclosures. The ultimate amount of items derived using such estimates and assumptions could differ from that reported in the financial statements because of the inherently uncertain nature of the assumptions and conditions on which the estimates were based.
Below is a brief description of the categories, with regard to the Fincantieri Group's sectors of business, most affected by the use of estimates and judgements and for which a change in the underlying assumptions could have a material impact on the consolidated financial results.

19.1 Revenue recognition for construction contracts

Like with other large, long-term contracts, shipbuilding contracts are dated well before product completion, sometimes even a long time before. Contracts now seldom include price adjustment formulae, while clauses providing for the possibility of additional consideration for additions or variations apply only to significant modifications in the scope of work.
The margins expected to be achieved upon the entire project's completion are recognized in profit or loss according to the stage of contract completion. Accordingly, correct recognition of construction contracts and margins relating to work in progress requires management to estimate correctly the costs of completion, any incremental costs, as well as delays, additional costs and penalties that could reduce the expected margin. In support of such estimates, management uses a system of contract risk management and analysis to monitor and quantify the risks relating to these contracts. The amounts recognized in the financial statements represent management's best estimate using these systems and procedures.

19.2 Provisions for risks and charges

The Group recognizes provisions for legal and tax risks and outstanding litigation where the outcome is expected to be negative. The amount of the provisions relating to such risks represents management's best estimate at the current date. This estimate is derived by adopting assumptions that depend on factors that may change over time.

19.3 Deferred tax assets

The recognition of deferred tax assets is based on expectations about the Group's future taxable profit and the possibility of transferring certain tax benefits to companies participating in the national tax consolidation of CDP. The assessment of future taxable profit for the purposes of recognizing deferred tax assets depends on factors that can change over time and so have a material impact on the recoverability of deferred tax assets.

19.4 Impairment of assets

The Group's property, plant and equipment and intangible assets with indefinite useful lives are tested for impairment at least annually or more often in the presence of evidence indicating that the carrying amount of such assets is not recoverable.
The impairment loss is determined by comparing an asset's carrying amount with its recoverable amount, defined as the higher of the asset's fair value less costs to sell and its value in use, determined by discounting the expected future cash flows expected to be derived from the asset net of costs to sell. The expected cash flows are quantified using information available at the time of the estimate on the basis of subjective assessments of future variables (prices, costs, rates of growth in demand, production profiles) and are discounted using a rate that takes into account the risks specific to the asset concerned.
Goodwill and other intangible assets with indefinite useful lives are not amortized; the recoverability of their carrying amount is reviewed at least annually and whenever there is an indication that the asset may be impaired. Goodwill is tested for impairment at the lowest level (cash-generating unit "CGU") within the entity at which management assesses, directly or indirectly, the return on the investment that includes such goodwill. When the carrying amount of the cash-generating unit, including the attributed goodwill, is higher than its recoverable amount, the difference is an impairment loss that is charged first against the value of goodwill until fully absorbed; any loss not absorbed by goodwill is allocated pro-rata to the carrying amount of the other assets in the cash-generating unit.

19.5 Business combinations

The recognition of business combinations involves allocating to the acquired company's assets and liabilities the difference between the purchase price and the net book value of the net assets acquired. For most of the assets and liabilities, the allocation of this difference is performed by recognizing the assets and liabilities at their fair value. The unallocated portion is recognized as goodwill if positive, and if negative, it is taken to profit or loss. Management uses available information for the purposes of the allocation process and, in the case of the most significant business combinations, external valuations.

19.6 Medium/long-term share-based incentive plans

For medium/long-term share-based incentive plans, the estimate of the number of rights that will mature until expiry is updated at the end of each period. The change in the estimate is reflected in the adjustment of the specially created Equity reserve for incentive plans, against "Personnel costs".

19.7 Subsequent events

In accordance with the provisions of IAS 10 – Events occurring after the reporting date, the Group analyses business events occurring after the reporting date, in order to verify whether, if the conditions identified by IAS 10 are met, they should be used to adjust the amounts recognized in the financial statements, or to recognize elements that had not been previously recognized.
With particular reference to the spread of the COVID-19 virus and to the effects that this pandemic could also significantly impact on the Group's operations and, in particular, its economic and financial results, in accordance with IAS 10, the Group has considered the above event to have occurred after the reporting date and does not entail an adjustment, which, in any case, cannot be determined to date. Consequently, the valuation of balance sheet items - and in particular those relating to construction contracts, tangible and intangible fixed asstes, including goodwill, and deferred tax assets - was carried out without taking into account the negative effects, even significant, that this pandemic will have on the Group's operations and consequently on the aforementioned accounting items.

NOTE 4 - FINANCIAL RISK MANAGEMENT

The principal financial risks to which the Group is exposed are credit risk, liquidity risk and market risk (in particular currency, interest rate and commodity price risk). The management of these financial risks is coordinated by the Parent Company, which decides, in close collaboration with its operating units, whether and how to hedge these risks.

Credit risk

The Fincantieri Group's receivables essentially comprise amounts owed by private shipowners for shipbuilding contracts, by the Italian government both for grants receivable and for supplies to the country's military services, and by the US Navy and US Coast Guard for shipbuilding contracts.
With specific reference to trade receivables due from private shipowners, the Fincantieri Group constantly monitors customer creditworthiness, credit exposure and promptness of payments. It should be underlined that, vessel delivery in the cruise business is subject to receipt of final payment.
The following tables provide a breakdown by risk class of the exposure as at 31 December 2019 and 2018 based on the nominal value of receivables before any provision for impairment of receivables:

(euro/000)

	31.12.2019					
		Past due				
	Not yet due	0 - 1 month	1 - 4 months	4 - 12 months	Beyond 1 year	Total
Trade receivables:						
- from public entities	5,300	697	264	1,669	27,090	35,020
- indirectly from public entities (*)	259	11	13,575	263	314	14,422
- from private ship-owners	358,706	23,583	29,271	12,056	69,087	492,703
TOTAL TRADE RECEIVABLES	364,265	24,291	43,110	13,988	96,491	542,145
Government grants financed by BIIS	4,762					4,762
Other government grants	3,017	4,492				7,509
Receivables from associates	12,365	4	686			13,055
Receivables from joint ventures	188,226	15	18	1	18	188,278
Receivables from controlling companies	3,006				32	3,038
Receivables from other companies	792					792
Other receivables	232,199	2,354	887		19,872	255,312
Other financial receivables	59,605					59,605
GROSS TOTAL	868,237	31,156	44,701	13,989	116,413	1,074,496
Provision for impairment of receivables						(47,569)
NET TOTAL						1,026,927
Advances, prepayments and accrued income						169,215
TOTAL						1,196,142

*These are receivables due from customers that manage work commissioned by public entities, which are therefore the effective debtors.

(euro/000)

	31.12.2018					
		Past due				
	Not yet due	0 - 1 month	1 - 4 months	4 - 12 months	Beyond 1 year	Total
Trade receivables:						
- from public entities	2,504	1,048	4,449	8,416	26,451	42,868
- indirectly from public entities (*)	399	17	527	5,031	13,649	19,623
- from private ship-owners	381,544	88,606	20,294	26,128	64,339	580,911
TOTAL TRADE RECEIVABLES	384,447	89,671	25,270	39,575	104,439	643,402
Government grants financed by BIIS	12,513					12,513
Other government grants	6,672	2,149				8,821
Receivables from associates	9,865					9,865
Receivables from joint ventures	146,680			66	517	147,263
Receivables from controlling companies	2,926		32			2,958
Receivables from other companies	2					2
Other receivables	167,304	2,755			23,732	193,791
Other financial receivables	66,545					66,545
GROSS TOTAL	796,954	94,575	25,302	39,641	128,688	1,085,160
Provision for impairment of receivables						(50,230)
NET TOTAL						1,034,930
Advances, prepayments and accrued income						152,993
TOTAL						1,187,923

*These are receivables due from customers that manage work commissioned by public entities, which are therefore the effective debtors.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.
The Group's net financial position reported net debt of euro 735 million at 31 December 2019 compared with net debt of euro 494 million at 31 December 2018. The change is mainly due to the financial dynamics typical of the cruise ship business, with the absorption of financial resources generated by the growth in production volumes and by investments during the year. The following tables show the contractual maturities of trade and financial liabilities, other than derivatives, calculated before interest which, depending on the loan or form of finance, may be at a fixed or floating rate.

(euro/000)

	31.12.2019					
	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company		19,425	30,667		50,092	49,613
Payables to associates	1,470	8,215	3,026	53	12,764	12,764
Payables to joint ventures	2,801	60,173			62,974	62,974
Bank loans and credit facilities	9,889	1,108,470	689,917	42,021	1,850,297	1,804,267
BIIS loans		4,868			4,868	4,762
Payables to suppliers	239,846	1,428,332	40,255	387	1,708,820	1,708,820
Payables to suppliers for reverse factoring		492,404			492,404	492,404
Financial liabilities for leasing IFRS 16		17,909	44,278	46,914	109,101	92,086
Bond and commercial papers		75,000			75,000	75,000
Other financial liabilities		1,599	4,162	874	6,635	6,481
Other liabilities	18,447	231,871	231		250,549	243,007
TOTAL	272,453	3,448,266	812,536	90,249	4,623,504	4,552,178
Advances, prepayments and accrued income						62,933
TOTAL						4,615,111

(euro/000)

	31,12,2018					
	On demand	Within 1 year	Between 1 and 5 years	Beyond 5 years	Contractual cash flows	Carrying amount
Payables to controlling company	14	58,367	36,954	4,013	99,348	98,574
Payables to associates	2,524	3,272	54		5,850	5,850
Payables to joint ventures	5,214	1,720			6,934	7,088
Bank loans and credit facilities	21,956	860,933	708,767	53,324	1,644,980	1,590,576
BIIS loans		8,146	4,866		13,012	12,513
Payables to suppliers	133,544	1,298,979	32,199	100	1,464,822	1,464,822
Payables to suppliers for reverse factoring	6,704	370,783			377,487	377,487
Finance lease obligations		210	26		236	236
Bond and commercial papers		231,000			231,000	231,000
Other financial liabilities		20,344	4,191	2,041	26,576	26,373
Other liabilities	3,456	190,383	7,537	127	201,503	201,397
TOTAL	173,412	3,044,137	794,594	59,605	4,071,748	4,015,916
Advances, prepayments and accrued income						52,394
TOTAL						4,068,310

Market risk

The financial risks affecting the Group specifically involve the risk that the fair value or future cash flows of assets/liabilities may fluctuate due to changes in the exchange rate of currencies in which the Group's commercial or financial transactions are denominated, due to changes in market interest rates or to changes in commodity prices.
In pursuing its business objectives, the Group does not intend to take on financial risks. If this is not possible, such risks are assumed only if they relate to the Group's core business and their impact can be neutralized (where possible) through hedging instruments.
Apart from using financial instruments, currency risk can be hedged by entering into loan agreements in the same currency as the sale contract, or cash balances can be established in the same currency as supply contracts.

Currency risk

Exposure to currency risk arises primarily when shipbuilding contracts are denominated in foreign currencies and, to a lesser extent, when goods and materials are purchased in currencies other than the functional currency.
Currency risk is managed using forward contracts or currency options, which are arranged according to the expected timing of foreign currency cash inflows and outflows; where possible, payments and receipts in the same currency are matched.
Currency risk management seeks to hedge all of the Group's foreign currency inflows, but only the largest foreign currency outflows.
During 2019, the Group was exposed to currency risk primarily in connection with certain cruise contracts. This risk was mostly mitigated using hedging instruments.

Interest rate risk

Interest rate risk is linked to:

- uncertainty in the cash flows relating to the Group's assets and liabilities because of fluctuations in interest rates; this risk is mitigated using cash flow hedging instruments;
- fluctuations in the fair value of the Group's assets and liabilities because of changes in market interest rates; this risk is mitigated using fair value hedging instruments.

Floating-rate assets and liabilities are exposed to the first of these risks, while fixed-rate assets and liabilities are exposed to the second risk.
As at 31 December 2019, three interest rate swaps were in place that had been negotiated in 2018 to hedge interest rate risk; two derivatives reduce the exposure to interest rate risk relating to short-term financing and the third hedges a medium/long-term variable rate loan.

Other market risks

The Group's production costs are affected by movements in the price of the principal raw materials used, such as steel, copper and fuel. The Parent Company mitigates this risk using appropriate contractual arrangements and/or hedges. During 2019, FINCANTIERI S.p.A. entered into swaps to fix the purchase price of a large part of its diesel and fuel oil needs through until 2022.

Capital management

The objective of the Fincantieri Group is to create value for shareholders and to support future development by maintaining an adequate level of capitalization that allows it to access external sources of financing at acceptable rates.

Fair value of derivatives

Other current and non-current financial assets and Other current and non-current financial liabilities include the fair value measurements of derivative financial instruments, as presented in the following table. All derivatives as cash flow hedge meet the effectiveness requirements laid down by IFRS 9 and so no ineffective portion of these hedges has needed to be expensed to profit or loss. Derivatives have tested positively as far as cash flow hedge effectiveness is concerned and so no ineffective portion of these hedges has needed to be expensed to profit or loss.

(euro/000)

	31.12.2019			
	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			2,673	100,000
Forwards			33,193	1,172,926
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	1,929	90,445	10,205	584,395
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps			77	180,000
Forwards	1,178	27,059	6,873	257,612
Futures	409	5,164	298	6,421
Options				
TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options				

(euro/000)

	31.12.2018			
	Positive fair value	Notional amount	Negative fair value	Notional amount
CASH FLOW HEDGING DERIVATIVES				
Interest rate swaps			1,778	280,000
Forwards	41,227	1,688,621	21,920	83,200
FAIR VALUE HEDGING DERIVATIVES				
Interest rate swaps				
Forwards	2,546	120,539	34,530	785,519
Futures				
Options				
HEDGING DERIVATIVES WHICH DO NOT QUALIFY FOR HEDGE ACCOUNTING				
Interest rate swaps				
Forwards	8,070	335,317	387	63,845
Futures	304	5,639	650	5,490
Options				
TRADING DERIVATIVES				
Interest rate swaps				
Forwards				
Futures				
Options	811	41,594	30	11,004

With reference to cash flow hedging derivatives, the change in the fair value of the hedged items is perfectly offset by the change in the value of the hedging instruments (negative for euro 23.1 million in 2019) and therefore no ineffective portion has been recognized.
The hedged items are recorded under Construction contracts – assets/liabilities in the Group Statement of Financial Position (see Notes 14 and 24).
The balance and movements of the cash flow hedge reserve in the year are shown in the table to this Note.
The fair value hedging instruments cover changes in the value of hedged firm commitments included in Other current and non-current assets/liabilities shown in Note 11, 15, 23 and 25.
The following tables provide an analysis of the maturity of derivative contracts. The amounts included in these tables represent undiscounted future cash flows, which refer to just the intrinsic value.

(euro/000)

	31.12.2019			
	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
CURRENCY RISK MANAGEMENT				
Outflow	1,139,747	1,003,990		2,143,737
Inflow	1,122,005	976,129		2,098,134
INTEREST RATE RISK MANAGEMENT				
Outflow	988	1,883		2,871
Inflow	114	7		121
COMMODITY PRICE RISK MANAGEMENT				
Outflow	4,110	7,474		11,584
Inflow	4,374	7,322		11,696

(euro/000)

	31.12.2018			
	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
CURRENCY RISK MANAGEMENT				
Outflow	1,355,761	1,724,280		3,080,041
Inflow	1,328,420	1,699,952		3,028,372
INTEREST RATE RISK MANAGEMENT				
Outflow	1,111	2,121		3,232
Inflow	339	1,115		1,454
COMMODITY PRICE RISK MANAGEMENT				
Outflow	5,370	5,759		11,129
Inflow	5,648	5,133		10,781

The fair value of derivative financial instruments has been calculated considering market parameters at the year-end reporting date and using widely accepted measurement techniques. In particular, the fair value of forward contracts has been calculated with reference to year-end exchange rates and interest rates for the different currencies.

Movements in the cash flow hedge reserve and impact of derivative instruments on profit or loss

The following table presents movements in the cash flow hedge reserve and the effect of derivative instruments on profit or loss:

(euro/000)

	Equity			
	Gross	Income taxes	Net	Profit or loss
1.1.2018	131,697	(39,061)	92,636	10,045
Change in fair value	24,968	(9,765)	15,203	
Utilizations	(131,697)	39,061	(92,636)	92,636
Other income/(expenses) for risk hedging				(90,215)
Finance income/(costs) relating to trading derivatives and time-value component of hedging derivatives				(18,361)
31.12.2018	24,968	(9,765)	15,203	(15,940)
Change in fair value	(11,453)	992	(10,461)	
Utilizations	(24,968)	9,765	(15,203)	15,203
Other income/(expenses) for risk hedging				(12,398)
Finance income/(costs) relating to trading derivatives and time-value component of hedging derivatives				(73,134)
31.12.2019	(11,453)	992	(10,461)	(70,329)

Financial assets and liabilities by category

The following table analyses financial assets and liabilities by category together with their fair value (IFRS 13) at the year-end reporting date:

(euro/000)

	31.12.2019					
	A	B	C	D	Total	Fair value
Investments carried at fair value	4,236	15,359			19,594	19,594
Derivative financial assets	3,516				3,516	3,516
Other financial assets	11,000		104,939		115,939	118,870
Trade receivables and other current assets			1,079,388		1,079,388	1,079,388
Cash and cash equivalents			381,790		381,790	381,790
Derivative financial liabilities	(17,459)	(35,860)			(53,319)	(53,319)
Other financial liabilities	(59,083)			(2,027,320)	(2,086,403)	(2,110,716)
Other non-current liabilities				(28,576)	(28,576)	(28,576)
Trade payables and other current liabilities				(2,553,701)	(2,553,701)	(2,553,701)

Key
A = Financial assets and liabilities at fair value through profit or loss
B = Financial assets and liabilities at fair value through equity (including hedging derivatives)
C = Financial assets and receivables carried at amortized cost (including cash & cash equivalents)
D = Financial liabilities carried at amortized cost

(euro/000)

	31.12.2018					
	A	B	C	D	Total	Fair value
Investments carried at fair value	4,289	267			4,556	4,556
Derivative financial assets	11,731	41,227			52,958	52,958
Other financial assets			125,442		125,442	126,690
Trade receivables and other current assets			1,062,377		1,062,377	1,062,377
Cash and cash equivalents			676,487		676,487	676,487
Derivative financial liabilities	(35,596)	(23,698)			(59,294)	(59,294)
Other financial liabilities	(19,389)			(1,896,891)	(1,916,280)	(1,938,480)
Other non-current liabilities				(32,137)	(32,137)	(32,137)
Trade payables and other current liabilities				(2,116,290)	(2,116,290)	(2,116,290)

Key
A = Financial assets and liabilities at fair value through profit or loss
B = Financial assets and liabilities at fair value through equity (including hedging derivatives)
C = Financial assets and receivables carried at amortized cost (including cash & cash equivalents)
D = Financial liabilities carried at amortized cost

Fair value measurement

The following tables show the financial instruments that are measured at fair value at 31 December 2019 and 2018, according to their level in the fair value hierarchy.

(euro/000)

	31.12.2019			
	Fair value Level 1	Fair value Level 2	Fair value Level 3	**Total**
Assets				
Financial assets at fair value through profit or loss				
Equity instruments	101		4,135	4,236
Debt instruments			11,000	11,000
Financial assets at fair value through comprehensive income				
Equity instruments			15,359	15,359
Debt instruments				
Hedging derivatives		3,516		3,516
Trading derivatives				
Total assets	**101**	**3,516**	**30,494**	**34,111**
Liabilities				
Financial liabilities at fair value through profit or loss			59,083	59,083
Hedging derivatives		53,319		53,319
Trading derivatives				
Total liabilities	**-**	**53,319**	**59,083**	**112,402**

(euro/000)

	31.12.2018			
	Fair value Level 1	Fair value Level 2	Fair value Level 3	**Total**
Assets				
Financial assets at fair value through profit or loss				
Equity instruments	178		4,111	4,289
Debt instruments				
Financial assets at fair value through comprehensive income				
Equity instruments			267	267
Debt instruments				
Hedging derivatives		52,147		52,147
Trading derivatives		811		811
Total assets	**178**	**52,958**	**4,378**	**57,514**
Liabilities				
Financial liabilities at fair value through profit or loss			19,389	19,389
Hedging derivatives		59,264		59,264
Trading derivatives		30		30
Total liabilities	**-**	**59,294**	**19,389**	**78,683**

Financial assets at fair value through comprehensive income classified as Level 3 relate to equity investments carried at fair value. Level 3 also includes the financial liabilities relating to the fair value of options on equity investments whose fair value, recorded through comprehensive income, is calculated using valuation techniques whose inputs are not observable on the market. This item relates to the option held by minority shareholders of the American Group FMG, the increase in which since 2018 is mainly due to the change in the fair value of the instrument, and the option held by minority shareholders of the INSIS Group recorded during the year.

NOTE 5 - SENSITIVITY ANALYSIS

Currency risk

With regard to currency risk, the Group has performed sensitivity analysis, both including and excluding the effect of hedging derivatives, in order to estimate the impact on pre-tax profit of a reasonable variance in the principal exchange rates to which the Group is most exposed against the functional currencies of the Parent Company and its subsidiaries (involving an appreciation/ depreciation of the foreign currency against the functional one). The analysis looks at exposure to currency risk, as defined by IFRS 7, and therefore does not consider the effects arising from translation of financial statements of foreign companies with a functional currency other than the Euro. In addition, the analysis has not examined the effect of exchange rate fluctuations on the valuation of work in progress, because the latter does not qualify as a financial asset under the IAS 32 definition. The variances for individual cross-currencies have been measured against the average 6-month volatility observed in 2019 for individual exchange rates.

(euro/000)

	31.12.2019		31.12.2018	
	Effect on pre-tax profit	Pre-tax effect on equity	Effect on pre-tax profit	Pre-tax effect on equity
Including hedging derivatives				
Foreign currency appreciation	(1)	(73)		(127)
Foreign currency depreciation	1	64	(2)	109
Excluding hedging derivatives(*)				
Foreign currency appreciation	(17)	(17)	(14)	(14)
Foreign currency depreciation	19	19	14	14

*The USD/BRL exposure is expressed net of USD construction loans, contracted with the purpose of hedging USD exposures.

Interest rate risk

Similarly, a sensitivity analysis has also been performed to estimate the impact of a potential general change in benchmark interest rates of +/- 50 basis points on an annualized basis. The estimated effects on profit or loss involve a negative impact of approximately euro 3.7 million in the event of a 0.50% increase in interest rates and a positive impact of euro 2.8 million in the event of a 0.50% reduction.

NOTE 6 - INTANGIBLE ASSETS

(euro/000)

	Goodwill	Client Relationships and Order Backlog	Development costs	Industrial patents and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangibles	Intangibles in progress and advances	**Total**
- cost	253,798	188,850	140,681	108,702	24,185	13,526	73,252	802,994
- accumulated amortization and impairment losses		(72,213)	(42,710)	(92,458)	(5,138)	(8,974)		(221,493)
Net carrying amount at 31.12.2017	**253,798**	**116,637**	**97,971**	**16,244**	**19,047**	**4,552**	**73,252**	**581,501**
First adoption IFRS 15						47,926		47,926
Net carrying amount at 01.01.2018	**253,798**	**116,637**	**97,971**	**16,244**	**19,047**	**52,478**	**73,252**	**629,427**
Movements in 2018								
- business combinations		85						85
- additions			7,228	1,363	249	1,069	27,317	37,226
- net disposals								
- reclassifications/ other			32,240	13,431	(369)	42	(45,330)	14
- amortization		(8,398)	(27,813)	(5,980)	(2,171)	(5,681)		(50,043)
- impairment losses						(211)		(211)
- exchange rate differences	1,032	(373)	(199)	(48)	828	(90)	20	1,170
Closing net carrying amount	**254,830**	**107,951**	**109,427**	**25,010**	**17,584**	**47,607**	**55,259**	**617,668**
- cost	254,830	188,420	179,898	123,349	24,938	63,048	55,259	889,742
- accumulated amortization and impairment losses		(80,469)	(70,471)	(98,339)	(7,354)	(15,441)		(272,074)
Net carrying amount at 31.12.2018	**254,830**	**107,951**	**109,427**	**25,010**	**17,584**	**47,607**	**55,259**	**617,668**
Movements in 2019								
- business combinations		18,898	2,236	63	55	2,268	3,975	27,495
- additions	3,585		2,510	5,224	742	14,766	37,738	64,565
- net disposals			(48)			(248)	(10)	(306)
- reclassifications/ other	860	(1)	(4,864)	1,245	3,706	131	(1,394)	(317)
- amortization		(9,481)	(28,154)	(8,478)	(1,765)	(9,292)		(57,170)
- impairment losses	(394)		(380)			(99)		(873)
- exchange rate differences	1,921	1,026	84	41	331	21	9	3,433
Closing net carrying amount	**260,802**	**118,393**	**80,811**	**23,105**	**20,653**	**55,154**	**95,577**	**654,495**
- cost	261,196	209,190	181,504	132,656	28,127	83,549	95,577	991,799
- accumulated amortization and impairment losses	(394)	(90,797)	(100,693)	(109,551)	(7,474)	(28,395)		(337,304)
Net carrying amount at 31.12.2019	**260,802**	**118,393**	**80,811**	**23,105**	**20,653**	**55,154**	**95,577**	**654,495**

Capital expenditure in 2019 amounted to euro 64,565 thousand (euro 37,226 thousand in 2018) and mainly related to:

- ongoing work to implement an integrated system for ship design (CAD) and project lifecycle management (PLM), aimed at improving the efficiency and effectiveness of the engineering process;
- the development of information systems to support the Group's growing activities and optimise process management, with particular reference to the upgrading of management systems and the exporting of these systems to the main subsidiaries of the Group;
- capitalization of incremental costs to obtain contracts.

During 2019, the Group also spent euro 134 million in research and development costs for various projects involving product and process innovations (euro 122 million in 2018), that will allow the Group to retain its leadership of all high-tech market sectors for the foreseeable future.
"Concessions, licenses, trademarks and similar rights" include euro 16,468 thousand for trademarks with indefinite useful lives, reflecting the expectation for their use and referring to the names of the American shipyards acquired (namely Marinette and Bayshipbuilding); these trademarks have been allocated to the cash-generating unit (CGU) representing the American group acquired. All such assets have nonetheless been allocated to their respective CGU for the purposes of impairment testing, which has not revealed any evidence of impairment.
The effects arising from the capitalization of incremental costs to obtain contracts have been reclassified in "First adoption IFRS" after the first application of IFRS 15 from 1 January 2018. The capitalized costs are amortized according to the contractual duration of the orders for which they were incurred. More details can be found in Note 1.
The exchange rate differences reflect movements in the period by the Norwegian krone and the US dollar against the euro.
"Goodwill" amounts to euro 260,802 thousand at 31 December 2019. Of the increase compared to 31 December 2018, euro 3,191 thousand is due to the acquisition of the INSIS Group. More details can be found in Note 37.
The recoverable amount of goodwill is estimated, in accordance with IAS 36, using the unlevered version of the Discounted Cash Flow model whereby an asset's value in use is calculated on the basis of estimated future cash flows discounted at an appropriate rate. Cash flow projections beyond the explicit period covered by the most recent budgets/forecasts are extrapolated using the perpetuity growth method to determine terminal value; the growth rates used ("g rate") may not exceed the long-term average growth rates predicted for the markets in which the individual CGUs operate.
For the purpose of impairment testing, the Group uses cash flow projections based on the best information available at the time. This information is based on management forecasts as at 31 December 2019 and does not take into account the effects on the operations of Group companies that will result from the spread of the COVID-19 virus (see Note 3, paragraph 19.7). A new Business Plan 2020-2024 will be finalized as soon as developments in the COVID 19 emergency permit a clearer analysis of the possible impact.
Expected future cash flows have been discounted using WACC (Weighted Average Cost of Capital) for the individual sectors to which the CGUs refer and, if necessary, adjusted to take account of the risk premium/discount of the specific country in which business is conducted. The WACC used for discounting purposes is a post-tax rate applied consistently to the relevant cash flows.
The growth rates ("g rate") used to project the cash flows of CGUs beyond the explicit planning period have been estimated on the basis of the anticipated growth scenarios for the individual sectors in which the CGUs operate.
The cash flow projections used reflect the current conditions of the CGUs being tested, while the values of WACC and g rate used are consistent with the Group's past performance and with management expectations of performance in the markets concerned.

CGU	Goodwill carrying amount	Recoverable amount	Post tax WACC	g rate	Cash flow period
FMG Group	70,771	Value in use	6.0%	2.3%	5 years
VARD Offshore and Specialized Vessels	60,104	Value in use	5.8%	1.8%	5 years
VARD Cruise	126,736	Value in use	6.0%	2.0%	5 years

Impairment tests have made reference to the reporting-date carrying amounts of each CGU. It should be noted that, as at 31 December 2019, part of the goodwill allocated to the VARD Offshore and Specialized Vessels CGU was reallocated to the VARD Cruise CGU. This reclassification reflects the new organizational allocation of the Vard Electro Group's activities from the VARD Offshore and Specialized Vessels CGU to the VARD Cruise CGU.

FMG Group CGU
The impairment test has shown that the CGU's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized.
The results obtained have been subjected to sensitivity analysis for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 basis points, recoverable amounts would still be significantly higher than carrying amounts.

VARD Offshore and Specialized Vessels CGU
The impairment test has shown that the CGU's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized.
The results obtained have been subjected to sensitivity analysis for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 basis points, recoverable amounts would still be higher than carrying amounts.

CGU VARD Cruise
The impairment test has shown that the CGU's recoverable amount exceeds its carrying amount, meaning that no impairment loss needs to be recognized.
The results obtained have been subjected to sensitivity analysis for those assumptions, changes in which might reasonably cause the test results to change materially. This has shown that if WACC were to increase by 100 basis points or if growth rates (g rate), used in the terminal value calculation, were to decrease by 100 basis points, recoverable amounts would still be significantly higher than carrying amounts.

It should be noted that the above sensitivity analyses were carried out on the basis of the forecasts of the Business Plan prepared by the management of the subsidiaries, which, as mentioned above, does not take into account the potential effects of COVID-19. On this point, it should be noted that, at the date of preparation of the financial statements, it is not possible to estimate the possible effects that COVID-19 could have on the operations of Group companies and therefore on the related future results; consequently, sensitivity analyses have been carried out without taking these effects into account.

NOTE 7 - RIGHTS OF USE

Movements in this line item are as follows:

(euro/000)

	Buildings ROU	State concessions ROU	Transport and lifting vehicles ROU	Passenger cars ROU	Computer equipment ROU	Other ROU	**Total**
Initial book value as at 01.01.2019	**62,237**	**21,603**	**1,342**	**2,804**	**483**	**62**	**88,531**
Movements							
- business combinations	4,200						4,200
- increases	13,757	1,755		1,804	410	225	17,951
- decreases	(79)	(1,651)		(26)			(1,756)
- reclassifications/ other	(1,412)						(1,412)
- amortization	(12,930)	(1,425)	(458)	(1,442)	(301)	(88)	(16,644)
- impairment losses	(906)						(906)
- exchange rate differences	(584)	174	20	33	10		(347)
Closing net carrying amount	**64,283**	**20,456**	**904**	**3,173**	**602**	**199**	**89,617**
- cost	78,197	21,881	1,361	4,597	903	287	107,226
- accumulated amortization and impairment losses	(13,914)	(1,425)	(457)	(1,424)	(301)	(88)	(17,609)
Net carrying amount at 31.12.2019	**64,283**	**20,456**	**904**	**3,173**	**602**	**199**	**89,617**

With effect from 1 January 2019, the new accounting standard IFRS 16 "Leases" came into force, which defines a standard form for recognising leasing contracts, eliminating the distinction between operating and financial leases, and providing for the recognition of an asset for the right to use the good and a liability for the lease.
For first-time application, for the purposes of displaying the impact in the financial statements from the first application of IFRS 16, the Group has decided to use the option provided for by IFRS 16, paragraph C5, subsection b) and paragraph C8, on the basis of which the Group recognised at 1 January 2019 a financial liability (euro 88 million) corresponding to the actual value of outstanding payments due for leases in place on the date of first application, discounted using the marginal lending rate on the date of initial application, against a fixed assets of the same amount reflecting the right to use the leased goods, without restating the values for the previous financial years presented for comparison.
Capital expenditure in 2019 amounted to euro 17,951 thousand and mainly related to the entering into new contracts, while the decreases related to the early termination of contracts.
It should be noted that the impairment losses concern the rights of use of the Aukra shipyard following the decision of the Board of Directors of the subsidiary Vard Group AS to leave the small vessel construction business for the fishery and aquaculture sectors and the subsequent sale of the shipyard.
For the values of non-current and current financial liabilities pursuant to IFRS 16, reference should be made to notes 22 and 27.

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

(euro/000)

	Land and buildings	Assets under finance lease	Industrial plant, machinery and equipment	Assets under concession	Leasehold improvements	Other assets	Assets under construction and supplier advances	**Total**
- cost	613,581	3,460	1,242,879	189,048	29,030	188,654	147,378	2,414,030
- accumulated amortization and impairment losses	(225,109)	(2,985)	(870,492)	(130,805)	(23,045)	(116,923)		(1,369,359)
Net carrying amount at 1.1.2018	**388,472**	**475**	**372,387**	**58,243**	**5,985**	**71,731**	**147,378**	**1,044,671**
Movements in 2018								
- business combinations								-
- additions	10,677		23,973	1,312	216	3,459	84,432	124,069
- net disposals	(1)		(177)			(44)	(10)	(232)
- reclassifications/ other changes	24,444		40,588	3,290	514	10,804	(81,603)	(1,963)
- depreciation	(16,907)	(269)	(55,541)	(4,496)	(1,016)	(7,826)		(86,055)
- impairment losses	(50)							(50)
-exchange rate differences	(2,147)	14	(3,977)		1	403	(708)	(6,414)
Closing net carrying amount	**404,488**	**220**	**377,253**	**58,349**	**5,700**	**78,527**	**149,489**	**1,074,026**
- cost	646,233	3,624	1,297,782	193,649	29,774	202,782	149,489	2,523,333
- accumulated amortization and impairment losses	(241,745)	(3,404)	(920,529)	(135,300)	(24,074)	(124,255)		(1,449,307)
Net carrying amount at 31.12.2018	**404,488**	**220**	**377,253**	**58,349**	**5,700**	**78,527**	**149,489**	**1,074,026**
Movements in 2019								
- business combinations			106			387		493
- additions	12,249		35,719	2,246	485	3,934	163,406	218,039
- net disposals			(1,261)			(103)	(55)	(1,419)
- reclassifications/ other changes	11,005	(220)	22,335	1,611	81	29,991	(37,969)	26,834
- depreciation	(17,978)		(53,795)	(4,740)	(1,027)	(10,423)		(87,963)
- impairment losses	(54)						(3,899)	(3,953)
- exchange rate differences	90		(861)	1	(2)	164	(419)	(1,027)
Closing net carrying amount	**409,800**	**-**	**379,496**	**57,467**	**5,237**	**102,477**	**270,553**	**1,225,030**
- cost	672,895		1,336,001	197,506	30,346	238,181	270,553	2,745,482
- accumulated amortization and impairment losses	(263,095)		(956,505)	(140,039)	(25,109)	(135,704)		(1,520,452)
Net carrying amount at 31.12.2019	**409,800**	**-**	**379,496**	**57,467**	**5,237**	**102,477**	**270,553**	**1,225,030**

Capital expenditure in 2019 has resulted in additions of euro 218,039 thousand, mainly related to:

- updating of the working areas and infrastructure at some shipyards, in particular Monfalcone and Marghera, to meet the new production scenarios and upgrading and improvement of the safety standards of machinery, equipment and buildings;
- upgrading of the operating areas and infrastructure of the new Fincantieri Infrastructure plant in Valeggio sul Mincio and Vard Braila's Romanian shipyard following the award of major contracts for steel structures;
- continuation of activities to introduce new technologies in particular at the Monfalcone shipyard with regard to the Integrated Environmental Authorization;
- maintenance of infrastructure and upgrading of production systems in the US shipyards;
- continuation of activities to modernize the Vard Tulcea and Vard Braila shipyards to support the construction of hulls and the multi-year program to build pre-fitted cruise ship blocks and sections for the Fincantieri production network.

The reclassifications/other changes include the reclassification of amounts reported at the end of the previous year in "Assets under construction and advances" to the relevant asset categories once the assets entered service. This item also includes the reclassification of the assets of the Aukra shipyard for euro 6,141 thousand in assets held for sale and discontinued operations. More details can be found in Note 36.
Two vessels (PSV) at 31 December 2018 were recorded under contract work in progress and, following management's decision to manage these vessels itself, they were reclassified for euro 34 million. Prior to this reclassification, the carrying amount was subjected to an impairment loss of euro 12.6 million. In addition, it should be noted that one of the two vessels was subjected to an impairment test, resulting in an impairment loss of euro 3.9 million.
The value of the property, plant and equipment of the indirect subsidiary Vard Promar has been tested for impairment, taking as its estimated recoverable amount the fair value less the costs to sell as identified in a report commissioned from an independent expert. The impairment test has shown that the recoverable amount of the assets exceeds their carrying amount, meaning that no impairment loss needs to be recognized.
The exchange rate differences reflect movements in the period by the Romanian leu, Brazilian real, US dollar and the Norwegian krone against the euro.
As at 31 December 2019, the amount of the Group's property, plant and machinery pledged as collateral against loans received was approximately euro 233 million (euro 243 million at the end of 2018).
Contractual commitments already given to third parties as of 31 December 2019 for capital expenditure not yet reflected in the financial statements amounted to approximately euro 183 million, of which euro 164 million for Property, plant and equipment and euro 19 million for Intangible assets.

NOTE 9 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER INVESTMENTS

Investments

These are analyzed as follows:

(euro/000)

	Associates	Joint ventures	**Total investments accounted for using the equity method**	Other companies carried at fair value through comprehensive income	Other companies at fair value through profit and loss	**Total other investments**	**Total**
1.1.2018	19,561	31,020	50,581	1,140	1,208	2,348	52,929
Changes in the consolidation							-
Investments	21,005	234	21,239				21,239
Revaluations/ (Impairment losses) through profit or loss	(4,781)	1,875	(2,906)		2,208	2,208	(698)
Revaluations/ (Impairment losses) through equity							-
Disposals		(12,905)	(12,905)				(12,905)
Dividends from investments accounted for using the equity method							-
Reclassifications/Other		4	4	(873)	869	(4)	-
Exchange rate differences	(362)		(362)		4	4	(358)
31.12.2018	35,423	20,228	55,651	267	4,289	4,556	60,207
Changes in the consolidation	51		51	31		31	82
Investments	2,531	475	3,006	15,080	21	15,101	18,107
Revaluations/ (Impairment losses) through profit or loss	(4,990)	1,822	(3,168)		(78)	(78)	(3,246)
Revaluations/ (Impairment losses) through equity							-
Disposals				(20)		(20)	(20)
Dividends from investments accounted for using the equity method							-
Reclassifications/Other							-
Exchange rate differences	232		232	1	3	4	236
31.12.2019	33,247	22,525	55,772	15,359	4,235	19,594	75,366

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

Investments made during the year totalled euro 18,107 thousand and mainly concerned the purchase of a 15% stake in Genova Industrie Navali S.p.A. (euro 15,000 thousand) and the purchase of a 20% stake in Decomar S.p.A. (euro 2,500 thousand). Revaluations/(impairment losses) through profit or loss (negative euro 3.246 thousand) include the share of comprehensive income of companies accounted for using the equity method (namely associates and joint ventures).

"Other investments" include investments carried at fair value, calculated on the basis of the related prices if quoted in active markets (Level 1), or using valuation techniques whose inputs are not observable on the market (Level 3).

INVESTMENTS AT 31 DECEMBER 2019

COMPANY NAME	Registered office	% owned	Carrying amount
INVESTMENTS IN ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD			
Brevik Technology AS	Norway	34.00	77
Castor Drilling Solution AS	Norway	34.13	326
CSS Design Ltd.	British Virgin Islands	31.00	394
Arsenal S.r.l.	Italy	24.00	11
AS Dameco	Norway	34.00	24
DOF Iceman AS	Norway	50.00	
Møkster Supply AS	Norway	40.00	592
Møkster Supply KS	Norway	36.00	613
Olympic Challenger KS	Norway	35.00	6,988
Olympic Green Energy KS	Norway	29.50	
Rem Supply AS	Norway	26.66	2,308
Taklift AS	Norway	25.47	292
Island Diligence AS	Norway	39.38	5,490
Gruppo PSC S.p.A.	Italy	10.00	12,433
Decomar S.p.A.	Italy	20.00	2,500
Centro Servizi Navali S.p.A.	Italy	10.93	1,148
Prelios Solution & Technologies S.r.l.	Italy	49.00	24
Leonardo Sistemi Integrati S.r.l.	Italy	14.58	23
Mc4com - Mission Critical for communications S.c.a.r.l.	Italy	50.00	4
Unifer Navale S.r.l.	Italy	20.00	
Total investments in associates accounted for using the equity method			**33,247**
INVESTMENTS IN JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD			
CSSC - Fincantieri Cruise Industry Development Ltd.	Hong Kong	40.00	2,837
Etihad Ship Building LLC	Arab Emirates	35.00	1,555
Orizzonte Sistemi Navali S.p.A.	Genoa	51.00	17,582
Issel Middle East Information Technology Consultancy LLC	Arab Emirates	49.00	17
BUSBAR4F S.c.a.r.l.	Trieste	10.00	24
Fincantieri Clea Buildings S.c.a.r.l.	Verona	51.00	5
PERGENOVA S.c.p.a.	Genoa	50.00	500
CONSORZIO F.S.B.*	Venice - Marghera	58.36	5
Total investments in joint ventures accounted for using the equity method			**22,525**
OTHER INVESTMENTS IN COMPANIES CARRIED AT FAIR VALUE THROUGH COMPREHENSIVE INCOME			
Consorzio Ric. Innov. Tec. Sicilia Trasp. Navali S.c.a.r.l.	Messina	6.21	28
Consorzio CONAI	Rome	(**)	1
Consorzio IMAST Scarl	Naples	3.24	22
Consorzio MIB	Trieste	(**)	2
Distretto Ligure delle Tecnologie Marine S.c.a.r.l.	La Spezia	11.51	115
EEIG Euroyards	Brussels	14.29	10
International Business Science Company S.c.a.r.l.	Trieste	22.22	10
MARE^{TC} FVG – Maritime Technology cluster FVG S.c.a.r.l.	Monfalcone (Gorizia)	13.30	65
SIIT- Distretto Tecnologico Ligure sui Sistemi Intelligenti Integrati S.c.p.a.	Genoa	11.80	71
Consorzio MedITech - Mediterranean Competence - Centre 4 Innovation	Naples	4.55	25
Genova Industrie Navali S.p.A.	Genoa	15.00	15,000
Uirnet S.p.A.	Rome	0.88	10
Total other investments in companies carried at fair value through comprehensive income			**15,359**
OTHER INVESTMENTS IN COMPANIES CARRIED AT FAIR VALUE THROUGH PROFIT AND LOSS			
Solstad Offshore ASA	Norway	0.35	100
Moldekraft AS	Norway	6.14	507
Friulia S.p.A.	Trieste	0.57	3,628
Total other investments in companies carried at fair value through profit and loss			**4,235**

*Consortium for recharging costs.
**% interest not shown, as consortium membership is subject to continuous change.

CSSC - Fincantieri Cruise Industry Development Ltd., which is 40% owned by the Parent Company, is consolidated using the equity method because, under the agreements between the Parent Company and the other shareholder, it is considered jointly controlled.
Etihad Ship Building LLC, which is 35% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is considered jointly controlled with other shareholders who hold the remainder of share capital.
Orizzonte Sistemi Navali S.p.A., which is 51% owned by the Parent Company, is consolidated using the equity method because, under its shareholders' agreement, it is considered jointly controlled with another shareholder who holds 49%.
Issel Middle East Information Technology Consultancy LLC, which is 49% owned by Issel Nord S.r.l., is consolidated using the equity method because, under the agreements with the other shareholder, it is considered jointly controlled.
PERGENOVA S.c.a.r.l. and Fincantieri Clea Buildings S.c.a.r.l., respectively 50% and 51% owned by Fincantieri Infrastructure S.p.A., are consolidated using the equity method because, under the agreements with the other shareholder, they are considered jointly controlled.
PSC S.p.A., 10% owned by the Parent Company, is consolidated using the equity method because the shareholding is considered to carry significant influence based on the shareholder agreements signed with the other shareholders.
Decomar S.p.A., 20% owned by the Parent Company, is consolidated using the equity method because the shareholding is considered to carry significant influence based on the shareholder agreements signed with the other shareholders.
Centro Servizi Navali S.p.A., which is 10.93% owned by the Parent Company, is consolidated using the equity method because the shareholding is considered to carry significant influence due to the Company's bylaws.

Disclosures relating to investments in associates
With regard to investments in associates accounted for using the equity method, the following table reports the aggregate share of the profits and losses attributable to the Group for all associates that are not individually material.

(euro/000)

	31.12.2019	31.12.2018
Profit (loss) from operations in the year	(4,990)	(4,781)
Other comprehensive income		
Total comprehensive income	**(4,990)**	**(4,781)**

At the reporting date, the Group has not undertaken commitments for financing relating to its investments in associates.

Disclosures relating to investments in joint ventures
The following tables present summarized financial information for Orizzonte Sistemi Navali S.p.A., a joint venture that at 31 December 2019 is material to the Group. The figures shown reflect amounts reported in the company's financial statements as adjusted for the Group's accounting policies.

CONDENSED BALANCE SHEET

(euro/000)

	31.12.2019	31.12.2018
ASSETS	284,653	353,763
Non-current	163	168
Other assets	163	168
Current	284,490	353,595
Other assets	168,493	333,762
Financial assets	1,556	1,699
Cash and cash equivalents	114,441	18,134
LIABILITIES	249,380	318,551
Non-current	185	192
Other liabilities	185	192
Current	249,195	318,359
Other liabilities	249,195	318,359
Equity	35,273	35,212

CONDENSED COMPREHENSIVE STATEMENT OF INCOME

(euro/000)

	31.12.2019	31.12.2018
Revenue	415,521	276,634
Depreciation and amortization	(91)	(137)
Interest income	145	321
Pre-tax profit from recurring operations	235	208
Income taxes	(175)	(139)
Net profit from recurring operations	60	69
Other comprehensive income/(losses)		
TOTAL COMPREHENSIVE INCOME/(LOSS)	60	69

RECONCILIATION WITH CARRYING AMOUNT

(euro/000)

	31.12.2019	31.12.2018
Equity at 01.01	35,212	35,139
Profit/(loss) for period	60	69
Other movements	1	4
Equity at 31.12	35,273	35,212
51% interest in joint venture	17,989	17,958
Other movements	(407)	(376)
Carrying amount	17,582	17,582

NOTE 10 - NON-CURRENT FINANCIAL ASSETS

These are analyzed as follows:

(euro/000)	31.12.2019	31.12.2018
Receivables for loans to joint ventures	22,000	8,400
Grants financed by BIIS		4,762
Derivative assets	1,093	30,006
Other non-current financial receivables	58,465	49,684
Non-current financial receivables from associates	11,045	5,049
NON-CURRENT FINANCIAL ASSETS	**92,603**	**97,901**

"Receivables for loans to joint ventures" relates to the shareholder loan made to the joint venture CSSC – Fincantieri Cruise Industry Development Ltd. The change since 31 December 2018 is due to the effect of the second tranche made of euro 13,600 thousand.
"Grants financed by Banca BIIS" at 31 December 2018 related to production grants under Italian Law 431/91. In detail, during 2004 the Group received a total of euro 93 million in capital grants from the Ministry of Infrastructure and Transport. In accordance with the Ministerial Decree approving these grants, i) the Group has entered into six fifteen-year loans for such amount with Banca Infrastrutture Innovazione e Sviluppo (BIIS), due to be extinguished in 2020 (recognized under financial liabilities), ii) the loan is repaid directly by the Ministry of Infrastructure and Transport to BIIS. Given the nature of the financial receivables and financial liabilities in question, the repayment of the loan with BIIS has no impact on the Group's cash flows.
"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of more than 12 months. Further details can be found in Note 4. The reduction in the balance is mainly due to the change in the fair value of the derivatives to hedge exchange rate risks following the weakening of the euro against the dollar.
"Other non-current financial receivables" refer to loans to third parties bearing market rates of interest. The change in "Other non-current financial receivables" is due to the convertible loan of euro 11 million that Fincantieri S.p.A. granted to T. Mariotti S.p.A., part of the Genoa Industrie Navali Group.
"Non-current financial receivables from associates" refer to market rate loans to Group companies that are not consolidated line-by-line. The change in the balance is due to the three-year loan guaranteed by pledge of euro 3.5 million that Fincantieri S.p.A. granted to Decomar S.p.A. Furthermore, during 2019, these financial receivables were subject to impairment of euro 6,927 thousand resulting from the application of the expected credit loss model introduced by IFRS 9.

NOTE 11 - OTHER NON-CURRENT ASSETS

Other non-current assets are analyzed as follows:

(euro/000)	31.12.2019	31.12.2018
Other receivables from investee companies	686	673
Government grants receivable	890	4,407
Firm commitments	7,038	18,427
Other receivables	8,909	8,304
OTHER NON-CURRENT ASSETS	**17,523**	**31,811**

Other non-current assets are all stated net of the related provision for impairment. Government grants receivable report the non-current portion of state aid granted by governments in the form of tax credits. The amount is analyzed below by due date for recovery:

(euro/000)	31.12.2019	31.12.2018
- between one and two years	890	4,407
- between two and three years		
- between three and four years		
- between four and five years		
- beyond five years		
TOTAL	**890**	**4,407**

"Firm commitments" of euro 7,038 thousand (euro 18,427 thousand at 31 December 2018) reflect the fair value of hedged items in fair value hedges used by the VARD Group to hedge currency risk arising on construction contracts in currencies other than the functional currency.
"Other receivables" of euro 8,909 thousand (euro 8,304 thousand at 31 December 2018) mainly include the receivable from the Iraqi Ministry of Defence (euro 4,693 thousand). Please refer to the specific section on litigation in Note 33 for a more detailed explanation. The remaining balance of euro 4,216 thousand consists of security deposits, advances and other minor items.

The following table presents the amount of and movements in the provision for impairment of other non-current receivables:

(euro/000)	Provision for impairment of other receivables
Balance at 1.1.2018	**8,188**
Utilizations	
Increases/ (Releases)	
Total at 31.12.2018	**8,188**
Utilizations	
Increases/ (Releases)	
Total at 31.12.2019	**8,188**

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are analyzed as follows:

(euro/000)	Sundry impairment losses	Product warranty	Other risks and charges	Fair value derivatives	Actuarial valuation employee severance benefit	Carry forward tax losses	Other temporary differences	**Total**
31.12.2017	**41,867**	**10,857**	**19,079**	**(38,901)**	**3,558**	**13,950**	**21,694**	**72,104**
First adoption IFRS							7,995	7,995
1.1.2018	**41,867**	**10,857**	**19,079**	**(38,901)**	**3,558**	**13,950**	**29,689**	**80,099**
Changes in 2018								
- business combinations								-
- through profit or loss	(12,866)	(1,385)	1,910		(55)	10,058	17,312	14,974
- impairment losses								-
- through other comprehensive income				29,134	(351)			28,783
- tax rate and other changes					(28)		(12)	(40)
- exchange rate differences	(134)	40	(56)	(24)		(535)	857	148
31.12.2018	**28,867**	**9,512**	**20,933**	**(9,791)**	**3,124**	**23,473**	**47,846**	**123,964**
Changes in 2019								
- business combinations							310	310
- through profit or loss	(3,511)	(1,925)	(10,049)	2,151	21	8,574	(12,939)	(17,678)
- impairment losses	(2,220)					(14,556)	(2,127)	(18,903)
- through other comprehensive income				10,777	728			11,505
- tax rate and other changes	1,686	0	(358)	(867)	(1)	618	(1,698)	(620)
- exchange rate differences	25	23	10	5		37	343	443
31.12.2019	**24,847**	**7,610**	**10,536**	**2,275**	**3,872**	**18,146**	**31,735**	**99,021**

Deferred tax assets have been recognized on items for which the tax is likely to be recovered against forecast future taxable income of Group companies. It should be noted that, as a precautionary measure, VARD Group AS has written down part of the deferred tax assets on losses carried forward and other temporary differences as at 31 December 2018.

Deferred tax assets are largely offsettable (by euro 23 million) against the deferred tax liabilities discussed below.
No deferred tax assets have been recognized on euro 83 million (euro 102 million at 31 December 2018) in carry forward losses of subsidiaries which are thought unlikely to be recovered against future taxable income.

Deferred tax liabilities are analyzed as follows:

(euro/000)	Deferred taxes from business combinations	Other temporary differences	**Total**
1.1.2018	**45,319**	**16,433**	**61,752**
Changes in 2018			
- business combinations			-
- through profit or loss	(2,102)	(857)	(2,959)
- impairment losses			-
- through other comprehensive income		(1,586)	(1,586)
- tax rate and other changes			-
- exchange rate differences	495	310	805
31.12.2018	**43,712**	**14,300**	**58,012**
Changes in 2019			
- business combinations	5,272	462	5,734
- through profit or loss	(7,222)	(2,911)	(10,133)
- impairment losses		(4)	(4)
- through other comprehensive income		(2)	(2)
- tax rate and other changes		(14)	(14)
- exchange rate differences	550	206	756
31.12.2019	**42,312**	**12,037**	**54,349**

The deferred tax liabilities for business combinations relate to differences arising when allocating purchase price to intangible assets with define useful lives, primarily client relationships and order backlog.

The other temporary differences include the difference between book and fiscal values of fixed assets, mainly for the American subsidiaries.

NOTE 13 - INVENTORIES AND ADVANCES

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Raw materials and consumables	299,230	280,105
Work in progress and semi-finished goods	31,547	120,044
Finished products	30,152	31,786
TOTAL INVENTORIES	360,929	431,935
Advances to suppliers	467,017	449,160
TOTAL INVENTORIES AND ADVANCES	827,946	881,095

Inventories and advances are stated net of relevant provisions for impairment.
The negative change of euro 53,149 thousand is mainly attributable to the VARD subsidiary and refers to the sale of an offshore vessel.
The amount recorded for Raw materials and consumables basically represents the volume of stock considered sufficient to ensure the normal conduct of production activities.
Work in progress and semi-finished goods and finished products include some of the subsidiary VARD's naval vessels as well as the manufacture of engines and spare parts.
The following table presents the amount of and movements in such provisions for impairment:

(euro/000)

	Provision for impairment - raw materials	Provision for impairment - work in progress and semi-finished goods	Provision for impairment - finished products
1.1.2018	14,629	5,494	2,007
Increases	2,228	11,413	994
Utilizations	(1,732)		
Releases	(2,139)		
Exchange rate differences	15	(462)	59
31.12.2018	13,000	16,445	3,060
Increases	4,094	1,880	6,697
Utilizations	(2,383)	(16,607)	(12)
Releases	(1,091)		
Exchange rate differences	24	156	6
31.12.2019	13,644	1,874	9,751

"Provision for impairment - raw materials" includes the adjustments made to align the carrying amount of slow-moving materials still in stock at year end with the net estimated realizable value.
"Work in progress and semi-finished goods" was utilized during the year due to the sale, by the subsidiary VARD, of an offshore vessel, partially impaired in previous years. This sale also led to a decrease in inventories of work in progress and semi-finished goods

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - CONSTRUCTION CONTRACTS - ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2019			31.12.2018		
	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net assets	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net assets
Shipbuilding contracts	8,302,891	(5,678,913)	2,623,978	8,134,360	(5,610,562)	2,523,798
Other contracts for third parties	183,764	(110,028)	73,736	48,102	(40,628)	7,474
Total	8,486,655	(5,788,941)	2,697,714	8,182,462	(5,651,190)	2,531,272

"Construction contracts - assets" report those contracts where the value of the contract's stage of completion exceeds the amount invoiced to the client. The stage of completion is determined as the costs incurred to date plus recognized margins less any expected losses.

NOTE 15 - TRADE RECEIVABLES AND OTHER CURRENT ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Trade receivables	677,472	749,387
Receivables from controlling companies (tax consolidation)	3,006	2,926
Receivables from related parties	792	
Government grants receivable	6,619	4,414
Other receivables	272,449	208,152
Indirect tax receivables	49,454	43,033
Firm commitments	792	5,217
Accrued income	68,610	49,053
Prepayments	194	195
TOTAL TRADE RECEIVABLES AND OTHER CURRENT ASSETS	1,079,388	1,062,377

Receivables are shown net of provisions for impairment. These provisions relate to receivables that are no longer considered fully recoverable, including those involving legal action and judicial and out-of-court proceedings in cases of debtor default.

A provision for interest charged on past due trade receivables has been recognized in a “Provision for past due interest”. Provisions for impairment of receivables report the following amounts and movements:

(euro/000)

	Provision for impairment of trade receivables	Provision for past due interest	Provision for impairment of other receivables	Total
1.1.2018	25,679	63	6,202	31,944
Business combinations				
Utilizations	(1,534)			(1,534)
Increases / (Decreases)	9,000		607	9,607
Exchange rate differences	(17)			(17)
31.12.2018	33,128	63	6,809	40,000
Business combinations				
Utilizations	(2,657)			(2,657)
Increases / (Decreases)	1,348		(12)	1,336
Exchange rate differences	7			7
31.12.2019	31,826	63	6,797	38,686

The decrease of euro 71,915 thousand in “Trade receivables” is mainly due to receipt of final payments for one cruise ship invoiced on 31 December 2018 and delivered by the Parent Company in 2019. “Government grants receivable” of euro 6,619 thousand include operating and capital grants from the state of Wisconsin recognized by the FMGH Group for the LCS project, and grants receivable, by the Parent Company and the subsidiary Cetena, for research and innovation.

“Other receivables” of euro 272,449 thousand mainly refer to:

- receivables for shipowner supplies, insurance claims, advances to suppliers, sundry receivables from employees, research grants and other miscellaneous receivables, mostly relating to the Parent Company, totaling euro 270,521 thousand (euro 206,642 thousand at 31 December 2018);
- receivables from social security institutions for euro 2,023 thousand (euro 1,510 thousand at 31 December 2018), most of which advances paid to employees for accidents and amounts owed by INPS (the Italian social security administration) in respect of the Wage Guarantee Fund..

“Indirect tax receivables” of euro 49,454 thousand (euro 43,033 thousand at 31 December 2018) mainly refer to claims for VAT refunds or set-off, to indirect foreign taxes and claims for customs duty refunds from the Italian Customs Authority.

“Firm commitments” of euro 792 thousand (euro 5,217 thousand at 31 December 2018) reflect the fair value of hedged items in fair value hedges used by the Group to hedge currency risk arising on construction contracts in currencies other than the functional currency.

“Prepayments” mainly refer to insurance premiums and other expenses relating to future periods.

NOTE 16 - INCOME TAX ASSETS

(euro/000)

	31.12.2019	31.12.2018
Italian corporate income taxation (IRES)	1,564	13,451
Italian regional tax on productive activities (IRAP)	344	541
Foreign tax	6,713	6,610
TOTAL INCOME TAX ASSETS	8,621	20,602

The provision for impairment of income tax assets reports the following amounts and movements:

(euro/000)

	Provision for impairment of income tax assets
Balance at 1.1.2018	2,042
Increases/ (Releases)	
Utilizations	
Total at 31.12.2018	2,042
Increases/ (Releases)	
Utilizations	(1,854)
Total at 31.12.2019	188

NOTE 17 - CURRENT FINANCIAL ASSETS

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Derivative assets	2,423	22,952
Other receivables	1,051	17,329
Government grants financed by BIIS	4,762	7,751
Accrued interest income	623	439
Prepaid interest and other financial expense	470	217
TOTAL CURRENT FINANCIAL ASSETS	9,329	48,688

"Derivative assets" represent the reporting-date fair value of derivatives with a maturity of less than 12 months. The fair value of derivative financial instruments has been calculated considering market parameters and using widely accepted measurement techniques (Level 2). Further details can be found in Note 4. The reduction in the balance is mainly due to the closure of derivative following the delivery of the IV Princess order in 2019 and the change in the fair value of the derivatives to hedge exchange rate risks due to the weakening of the euro against the dollar.

The change in "Other receivables" is due to the decrease in interest-bearing receivables from clients and deposits made by the VARD Group as security for certain contractual obligations to its lenders.

"Government grants financed by BIIS" (Banca Infrastrutture Innovazione e Sviluppo) report the current portion of government grants receivable by shipyards and by shipowners, assigned to Fincantieri as part of contract price. Note 10 contains information about the non-current portion of these grants.

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 - CASH AND CASH EQUIVALENTS

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Bank and postal deposits	381,656	676,395
Checks		
Cash on hand	134	92
TOTAL CASH AND CASH EQUIVALENTS	381,790	676,487

Cash and cash equivalents at period end include euro 5,215 thousand in term bank deposits; the remainder refers to the balances on current accounts held with a number of banks.

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 - EQUITY

Equity attributable to owners of the parent

The Ordinary Shareholders' Meeting held on 5 April 2019 adopted a resolution to allocate the net profit from the 2018 financial year, euro 217,998 thousand, as follows: euro 10,900 thousand to the Legal Reserve, euro 16,874 thousand for distribution to shareholders with a dividend of 1 euro cent per share in circulation at the coupon-detachment date (15 April 2019), excluding own shares in the portfolio on that date, and the remainder to the Extraordinary Reserve.
The composition of equity is analyzed in the following table:

(euro/000)

	31.12.2019	31.12.2018
Attributable to owners of the parent		
Share capital	862,981	862,981
Reserve of own shares	(7,118)	(5,277)
Share premium reserve	110,499	110,499
Legal reserve	51,189	40,289
Cash flow hedge reserve	(10,419)	15,271
Available-for-sale fair value reserve	(398)	(394)
Currency translation reserve	(126,002)	(137,916)
Other reserves and retained earnings	279,008	269,387
Profit/(loss) for the year	(141,242)	72,440
	1,018,498	1,227,280
Attributable to non-controlling interests		
Capital and reserves	30,336	22,504
Available-for-sale fair value reserve	(7)	(11)
Currency translation reserve	8,019	6,515
Profit/(loss) for the year	(6,997)	(3,318)
	31,351	25,690
TOTAL EQUITY	1,049,849	1,252,970

Share capital

The share capital of FINCANTIERI S.p.A. amounts to euro 862,980,725.70, fully paid-in, divided into 1,699,651,360 ordinary shares (including 7,226,303 own shares in portfolio), with no par value.
On 27 June 2019, the Board of Directors approved the closure of the first cycle of the "Performance Share Plan 2016-2018" incentive plan, allocating 10,104,787 ordinary Fincantieri shares to beneficiaries free of charge, following verification of the degree to which the specific performance objectives originally set (EBITDA of 70% and the "Total Shareholder Return") had been achieved with a weighting of 30%. Following the above resolution, the shares were allocated using treasury shares in portfolio for those to be allocated free of charge to non-employees numbering 2,572,497 shares and by issuing new shares, again with no par value, in order to satisfy the Plan for shares to be allocated free of charge to employees numbering 7,532,290 shares. The issue and delivery of the shares took place on 30 July 2019. Following this issue, the number of shares issued was 1,699,651,360.
As at 31 December 2019, 71.32% of the Company's Share Capital, amounting to euro 862,980,725.70, was held by CDP Industria S.p.A.; the remainder was distributed on the indistinct market (except for 0.42% of shares owned by Fincantieri as own shares). None of the other private investors holds a significant stake equal to or greater than 3%. It should be noted that 100% of the share capital of CDP Industria S.p.A. is owned by Cassa Depositi e Prestiti S.p.A., which is controlled by Italy's Ministry of Economy and Finance since it holds 82.77% of its share capital.

Reserve of own shares

The reserve is negative for euro 7,118 thousand and comprises the value of the own shares for the Company's incentive plans called "Performance Share Plan" (described in more detail in Note 33) to be carried out in accordance with art. 5 of EU Regulation No. 596/2014 and as resolved by the Company's Shareholders' Meeting held on 19 May 2017. Following the Board of Directors' resolution of 27 June 2019 concerning the closure of the first cycle of the "Performance Share Plan 2016-2018", 2,572,497 own shares in portfolio were allocated free of charge to non-employees, for a total value of euro 2,844 thousand, and 5,091,910 shares were repurchased from employees and non-employees respectively, for a total value of euro 4,725 thousand, in order to enable them to pay the related tax charges. At 31 December 2019, the own shares in portfolio amounted to 7,226,303, equal to 0.42% of the Share Capital. The number of shares issued is reconciled to the number of shares outstanding in the Parent Company at 31 December 2019.

	N° shares
Ordinary shares issued	1,692,119,070
less: own shares purchased	(4,706,890)
Ordinary shares outstanding at 31.12.2018	1,687,412,180
Changes in 2019 plus: ordinary shares issued	7,532,290
plus: own shares allocated	2,572,497
less: own shares purchased	(5,091,910)
Ordinary shares outstanding at 31.12.2019	1,692,425,057
Ordinary shares issued	1,699,651,360
less: own shares purchased	(7,226,303)

Share premium reserve

This reserve has been recorded as a result of the capital increase accompanying the Company's listing on the Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A. on 3 July 2014. Listing costs of euro 11,072 thousand (net of tax effects) referring to the capital increase have been accounted for as a deduction from the share premium reserve, in compliance with IAS 32.

Cash flow hedge reserve

The cash flow hedge reserve reports the change in the effective portion of derivative hedging instruments measured at fair value; movements in the cash flow hedge reserve are shown in Note 4.

Currency translation reserve

The currency translation reserve reflects exchange differences arising from the translation into Euro of financial statements of foreign operations prepared in currencies other than the Euro.

Other reserves and retained earnings

These mainly comprise: i) surplus earnings after making allocations to the legal reserve and distributions in the form of shareholder dividends; ii) the reserve to cover the issue of shares for the 1st cycle of the LTIP; iii) actuarial gains and losses on employee benefit plans; iv) the Reserve for the share-based incentive plan for management. The Ordinary Shareholders' Meeting held on 5 April 2019 resolved to allocate the net profit for the year 2018 as follows: euro 16,874 thousand for distribution to the shareholders of 1 euro cent per share in circulation at the coupon-detachment date (15 April 2019), excluding own shares in the portfolio on that date. This dividend was paid by June 2019. The Reserve to cover the issue of shares for the 1st cycle of the LTIP amounts to euro 3,842 thousand. It was set up by resolution of the Board of Directors on 27 June 2019 for the issue of shares to allocate to employees during the payout of the 1st cycle of the incentive plan "Performance Share Plan 2016-2018", through the reclassification from the reserves of available earnings and more specifically from the extraordinary reserve. It should be noted that the change in this item is attributable for euro (34,915) thousand to the recognition, as a reduction in the Group's shareholders' equity, of a liability to the minority shareholders of the INSIS group, acquired during 2019, for the put options granted to them relating to the minority interests held by them.

Non-controlling interests

The change with respect to 31 December 2018 is attributable for euro 14,157 thousand to the change in the scope of consolidation due to the acquisition of the INSIS group in early July 2019 and for euro (2,625) to the recognition, as a reduction of the consolidated shareholders' equity of the INSIS group, of a liability to the minority shareholders of the same, for the put options granted to them by INSIS SpA for the portion attributable to the minority shareholders of INSIS SpA itself. For the remaining euro 733 thousand, these are the effects of the change in the consolidation percentage of the VARD group due to the purchase of minority interests and the capital increase carried out during the year.

Other comprehensive income/losses

The amount of other comprehensive income/losses, presented in the statement of comprehensive income, is as follows:

(euro/000)

	31.12.2019			31.12.2018		
	Gross amount	Tax (expense)/ benefit	Net amount	Gross amount	Tax (expense)/ benefit	Net amount
Effective portion of profits/(losses) on cash flow hedging instruments	(36,372)	10,757	(25,615)	(106,729)	29,296	(77,433)
Gains/(losses) from remeasurement of employee defined benefit plans	(2,789)	736	(2,053)	1,502	(361)	1,141
Gains/(losses) arising from changes in OCI of investments accounted for using the equity method						
Gains/(losses) arising on translation of financial statements of foreign operations	13,834	(416)	13,418	14,586	1,424	16,010
Total other comprehensive income/ (losses)	**(25,327)**	**11,077**	**(14,250)**	**(90,641)**	**30,359**	**(60,282)**

(euro/000)

	31.12.2019	31.12.2018
Effective portion of profits/(losses) arising in period on cash flow hedging instruments	(11,404)	24,968
Effective portion of profits/(losses) on cash flow hedging instruments reclassified to profit or loss	(24,968)	(131,697)
Effective portion of profits/(losses) on cash flow hedging instruments	**(36,372)**	**(106,729)**
Tax effect of other components of comprehensive income	**10,757**	**29,296**
TOTAL OTHER COMPREHENSIVE INCOME/(LOSSES), NET OF TAX	(25,615)	(77,433)

NOTE 20 - PROVISIONS FOR RISKS AND CHARGES

These are analyzed as follows:

(euro/000)

	Litigation	Product warranty	Agent indemnity benefit	Business reorganization	Other risks and charges	Total
1.1.2018	70,123	48,249	61	905	21,505	140,843
Business combinations						
Increases	36,857	28,493			3,834	69,184
Utilizations	(31,405)	(25,257)			(1,158)	(57,820)
Releases		(11,495)	(7)		(6,183)	(17,685)
Other movements		432			244	676
Exchange rate differences	(342)	340		(11)	31	18
31.12.2018	75,233	40,762	54	894	18,273	135,216
Business combinations					65	65
Increases	35,041	31,897		3,722	8,726	79,386
Utilizations	(81,390)	(29,062)	(12)	(460)	(5,961)	(116,885)
Releases	(203)	(6,206)			(3,540)	(9,949)
Other movements	663	68		1	29	761
Exchange rate differences	(53)	82		4	(2)	31
31.12.2019	29,291	37,541	42	4,161	17,590	88,625
- of which non-current portion	26,919	28,988	42		14,933	70,882
- of which current portion	2,372	8,553		4,161	2,657	17,743

Increases in the litigation provision mainly refer to: i) precautionary provisions for claims brought by employees, authorities or third parties for damages arising from asbestos exposure; ii) other provisions for litigation with employees and suppliers and for other legal proceedings.
Utilization of the provision for litigation includes euro 31.5 million for the effect of the settlement of the "Serene" dispute, which resulted in the termination of all enforcement proceedings in the English courts and other proceedings pending in other jurisdictions; while the remainder refers mainly to compensation in the asbestos-related lawsuits brought by employees, authorities or third parties.
The "Product warranty" provision relates to the estimated cost of carrying out work under contractual guarantee after vessel delivery. The warranty period normally lasts for 1 or 2 years after delivery, but in some cases it may be longer.
The "Business reorganization" provision has been set aside for the cost of the reorganization programs initiated by VARD in its Norwegian shipyards.
The provision for "Other risks and charges" includes funds (euro 5,069 thousand) for environmental clean-up costs and the remainder includes provisions for risks related to various kinds of disputes, mostly of a contractual, technical or fiscal nature, which might be settled at the Group's expense either in or out of court. The provisions include euro 5,918 thousand in provisions made in relation to tax assessments in progress, classified under taxes and levies in profit or loss. Utilizations include euros 5.6 million in disbursements following the tax settlement proposal for the tax audit on 2013.

NOTE 21 - EMPLOYEE BENEFITS

Movements in this line item are as follows:

(euro/000)

	2019	2018
Opening balance	56,830	58,929
Business combinations	1,456	
Interest cost	877	724
Actuarial (gains)/losses	2,830	(1,694)
Utilizations for benefits and advances paid	(2,435)	(1,501)
Staff transfers and other movements	508	373
Exchange rate differences		(1)
Closing balance	60,066	56,830
Plan assets	(19)	(24)
Closing balance	60,047	56,806

The balance at 31 December 2019 of euro 60,066 thousand is mainly comprised of the employee severance benefit pertaining to the Group's Italian companies (euro 60,057 thousand).
The amount of Italian employee severance benefit recognized in the financial statements is calculated on an actuarial basis using the projected unit credit method; the discount rate used by this method to calculate the present value of the defined benefit obligation reflects the market yield on bonds with the same maturity as that expected for the obligation.
The assumptions adopted are as follows:

	31.12.2019	31.12.2018
ECONOMIC ASSUMPTIONS		
Cost of living increase	1.20%	1.50%
Discount rate	0.77%	1.57%
Increase in employee severance benefit	2.40%	2.625%
DEMOGRAPHIC ASSUMPTIONS		
Expected mortality rate	RG48 mortality tables published by the State Accounting Office	RG48 mortality tables published by the State Accounting Office
Expected invalidity rate	INPS tables split by age and gender	INPS tables split by age and gender
Expected resignation rate	3.0%	3.0%
Expected rate of advances on employee severance benefit	2.0%	2.0%

Reasonable variations in the parameters used do not have any significant impact on the estimated liability.
The table below shows the expected payouts for Italian employee severance benefits in years to come:

(euro/000)

	Expected payments
Within 1 year	7,036
Between 1 and 2 years	3,801
Between 2 and 3 years	2,489
Between 3 and 4 years	2,723
Between 4 and 5 years	2,861
Total	18,910

The Group paid a total of euro 35,570 thousand into defined contribution plans in 2019 (euro 36,598 thousand in 2018).

NOTE 22 - NON-CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Bank loans and credit facilities - non-current portion	728,417	760,448
Loans from BIIS - non-current portion		4,762
Liabilities to banks and other lenders	7,310	6,078
Financial liabilities for leasing IFRS 16 – non-current portion	76,645	
Finance lease obligations		26
Fair value of options on equity investments	37,541	
Derivative liabilities	31,638	21,414
TOTAL NON-CURRENT FINANCIAL LIABILITIES	881,551	792,728

With reference to "Bank loans and credit facilities - non-current portion", during the first half of 2019, the Parent Company took out two new medium-long term unsecured loans: the first for euro 30 million, with Banca Mediocredito del Friuli Venezia Giulia, repayable in a single instalment in February 2022; the second for euro 30 million, with the Bank of China, repayable in a single instalment in May 2024. In July 2019, the Parent Company took out another unsecured medium-long term loan with Bayerische Landesbank for euro 50 million, repayable in a single instalment in July 2022. At 31 December 2019, a non-current portion of euro 144 million of bank loans maturing in the next 12 months was reclassified to the current portion.
The item "Financial liabilities for leasing IFRS 16" refers to the non-current portion of the financial liability for instalments due relating to leasing contracts falling within the scope of application of IFRS 16 applied as from 1 January 2019. Note 7 contains details on related rights of use.

Bank loans and credit facilities

The following table presents the composition of bank loans and credit facilities, including disclosure of the non-current portion and the current portion reclassified to current financial liabilities:

(euro/000)

	31.12.2019	31.12.2018
Bayerische Landesbank	225,000	175,000
Intesa Sanpaolo	103,854	103,853
Banca Nazionale del Lavoro	100,000	100,000
UBI Banca	81,492	91,617
Banca Popolare dell'Emilia Romagna	75,000	84,167
Banco do Brazil	74,649	80,445
Credito Valtellinese	46,034	50,000
Cassa Depositi e Prestiti	40,487	51,101
Banca Mediocredito del Friuli Venezia Giulia	35,880	9,240
Bank of China	30,000	
Crèdit Agricole - Cassa di Risparmio della Spezia	25,000	25,000
Banca UBAE	15,000	15,000
Innovation Norway	7,501	9,232
Unicredit Tiriac Bank SA	5,000	11,667
Nordea		1,310
Other loans and credit facilities	3,856	4,360
TOTAL BANK LOANS AND CREDIT FACILITIES	868,753	811,992
Non-current portion	728,417	760,448
Current portion	140,336	51,544

The exposure to Bayerische Landesbank relates to four medium/long-term loans of the Parent Company. The first was disbursed in September 2018 for 75 million, repayable in a single instalment in September 2023. Moreover, in November 2018 two other "Schuldschein" loans were taken out with Bayerische Landesbank acting as Arranger and Paying Agent: the first for euro 29 million with a duration of 3 years (expiry November 2021) and the second for euro 71 million with a duration of 5 years (expiry November 2023). Lastly, Bayerische Landesbank disbursed a loan in August 2019 for euro 50 million, repayable in a single instalment in July 2022. The "Schuldschein" loans will be repaid in a single solution at the respective maturity dates. "Schuldschein" loans are debt instruments which are privately placed by an arranger bank with professional investors. Unlike normal syndicated loans, the loan is securitized in a note (Schuldschein) which is then transferred to the investors.
The exposure to Intesa Sanpaolo refers to a medium/long term unsecured loan of the Parent Company disbursed in August 2018 for euro 100 million, repayable in a single instalment in July 2023. In addition, with the same bank, the ordinary portions of three loans taken out in 2014 for

technological innovation projects under Law 46/1982 known as "Environmental Logistics", ""Payload" and "Production Engineering" for euro 3,853 thousand were fully drawn down between 2015 and 2018. These loans are due to be repaid between 2022 and 2024.
The exposure to Banca Nazionale del Lavoro refers to a medium/long term unsecured loan of the Parent Company taken out in 2018 for euro 100 million, repayable in a single instalment in July 2023.
In November 2016, UBI Banca granted the Parent Company a medium/long-term unsecured loan for euro 20 million, repayable in 6 semi-annual instalments ending in February 2020. In December 2016, UBI Banca granted the Parent Company the first ordinary portion, euro 1,617 thousand, of a loan agreed in 2014 for euro 2,021 thousand for an innovation project under Law 46/1982 called "Environment"; this amount will be repaid in semi-annual instalments due between 2021 and 2024. In 2017 the bank granted the Parent Company a new medium/long-term unsecured loan for euro 40 million, repayable in a single instalment in November 2020. In December 2018 a further unsecured loan was taken out with UBI Banca for a total of 30 million, repayable in a single instalment in June 2020. In May 2018 Vard Group AS took out a loan with UBI Banca for a total of 10 million, which will be repaid in three-monthly instalments by May 2021.
The Parent Company has an exposure to Banca Popolare dell'Emilia Romagna consisting of the residual debt on two medium/long-term unsecured loans. The first loan was disbursed in 2018 for euro 30 million, repayable in six semi-annual instalments from July 2019 and ending in January 2022. In August 2018, the second loan was disbursed for euro 50 million, repayable in six semi-annual instalments from February 2021 to August 2023.
Among the loans granted to the Brazilian subsidiaries, Vard Promar SA has a long-term financing agreement with Banco do Brasil, maturing in 2029. This loan is being used to finance construction of the shipyard in Suape and is collateralized with shipyard assets. The residual amount at 31 December 2019 amounts to euro 83 million.
The Parent Company has an exposure to Credito Valtellinese consisting of the residual debt on two medium/long-term unsecured loans. The first loan was disbursed by the bank in July and September 2017 for euro 20 million to be repaid, after a 22-month grace period, in 5 semi-annual instalments ending in July 2021. The second loan, for euro 30 million, was disbursed in 2018 and is repayable, after a grace period of 36 months, in 3 semi-annual instalments ending in September 2022.
The exposure to Cassa Depositi e Prestiti refers to six soft loans received by the Parent Company under the "revolving fund in support of businesses and investment in research" (the "Fund"), established under Law 311 of 30 December 2004, for the "Superpanamax cruise ship" development project under Law 46/1982, for the "Ecomos" applied research project under Law 297/1999 and for four technological innovation projects under Law 46/1982 known as "Environmental Logistics", "Payload", "Production Engineering" and "Environment".
The following loans have been granted to FINCANTIERI S.p.A. under this Fund through the Cassa Depositi e Prestiti:

- for the "Superpanamax cruise ship" project, a fully disbursed loan for euro 12,217 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2022;
- for the "Superpanamax cruise ship" project, a fully disbursed loan for euro 4,405 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2020;
- for the "Ecomos" project, a fully disbursed loan for euro 10,818 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Payload" project, a fully disbursed loan for euro 13,043 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Project Engineering" project, a fully disbursed loan for euro 10,822 thousand. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;
- for the "Environmental" project, a loan for up to euro 18,192 thousand, of which euro 14,554 thousand was disbursed by the end of 2016. The loan is unsecured and must be repaid in semi-annual instalments by 30 June 2024;

In February 2019, the Parent Company took out an unsecured medium-long term loan with Banca Mediocredito del Friuli Venezia Giulia, disbursed in the same month for euro 30 million, repayable in a single instalment in February 2022. Another exposure of the Parent Company's to Banca Mediocredito del Friuli Venezia Giulia refers to two loans, secured by a lien on plant, machinery and equipment at the Monfalcone shipyard, as disclosed in Note 8, disbursed between 2009 and 2014 for the original total amount of euro 34 million. These loans are to be repaid progressively in semi-annual instalments by 2022.
In 2019 the bank granted the Parent Company another new medium/long-term unsecured loan with the Bank of China for euro 30 million, repayable in a single instalment in May 2024.
The exposure to Crèdit Agricole – Cassa di Risparmio della Spezia refers to a medium/long-term unsecured loan granted to the Parent Company in October 2017 and disbursed in 2018 for euro 25 million, due to be repaid in a single instalment in January 2021 (the original expiry was January 2020).
In 2017 the Parent Company took out a medium/long-term unsecured loan for euro 15 million with Banca UBAE, repayable in a single instalment in January 2020.
Vard Group AS has five loans with Innovation Norway for a total of NOK 74 million (current and non-current portions) at 31 December 2019; these loans are secured by plant and machinery and by the dock at the Langesten shipyard and also carry covenants (Consolidated Equity > NOK 1,500 million and Consolidated Cash and cash equivalents > NOK 500 million). Vard obtained from Innovation Norge a waiver of the covenant relating to equity for the last quarter of 2019.
In September 2017, Vard Tulcea SA obtained a loan from Unicredit Tiriac Bank SA for euro 20 million. The residual amount of this loan at 31 December 2019 is euro 5,000 thousand. The loan is collateralized with shipyard assets and must be repaid in monthly instalments by September 2020.
The subsidiary Vard Electro AS obtained a loan from a local bank in 2016 for NOK 59 million, maturing in 2032, to finance construction of its new headquarters.
"Other loans and credit facilities" includes two loans granted by Mediocredito Centrale to the Parent Company for the "Superpanamax cruise ship" development project under Law 46/1982 and the "Ecomos" applied research project under Law 297/1999, fully disbursed between 2013 and 2017 for an overall total of euro

1,847 thousand. The final instalments are due on these loans in June 2022 and June 2020 respectively. The same item includes the exposure of the company Gestione Bacini La Spezia S.p.A. to Credit Agricole - Cassa di Risparmio della Spezia for a medium/long-term loan disbursed in 2007 for a total of euro 3 million ending in December 2020. The item also includes the exposure of INSIS S.p.A. to Unicredit relating to the residual debt of two unsecured medium/long-term loans, the first entered into in September 2017 for a total amount of euro 1 million repayable in quarterly installments ending in June 2022, the second entered into in December 2018 for a total amount of euro 1 million repayable in quarterly installments ending in September 2021, and the exposure of INSIS S.p.A. to Banco BPM relating to the residual debt of a medium/long-term unsecured loan entered into in July 2017 for a total amount of euro 2 million repayable in monthly installments ending in 2020.
The non-current portion of bank loans and credit facilities reports the instalments due beyond one year of loans obtained from financial institutions, analyzed by maturity as follows:

(euro/000)

	31.12.2019			31.12.2018		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
- between one and two years	19,766	94,501	114,267	26,285	138,644	164,929
- between two and three years	58,800	76,222	135,022	25,578	73,141	98,719
- between three and four years	282,978	90,557	373,535	16,717	45,536	62,253
- between four and five years	4,003	31,605	35,608	290,898	91,269	382,167
- beyond five years	66,940	3,045	69,985	49,749	2,631	52,380
Total	432,487	295,930	728,417	409,227	351,221	760,448

"Loans from BIIS – non-current portion" at 31 December 2018 reflect the receipt of production grants in the form of loans that are then effectively repaid by the state (see Note 10). The movement in the period is consistent with that of the corresponding amount recognized as a receivable.
The "Fair value of options on equity investments" refers to the option held by minority shareholders of the INSIS Group.

NOTE 23 - OTHER NON-CURRENT LIABILITIES

These are analyzed as follows:

(euro/000)	31.12.2019	31.12.2018
Capital grants	23,301	24,242
Other liabilities	5,233	6,933
Firm commitments	42	962
TOTAL OTHER NON-CURRENT LIABILITIES	28,576	32,137

"Capital grants" mainly comprise deferred income associated with grants for property, plant and equipment and innovation grants which will be released to income in future years to match the related depreciation/amortization of these assets.
"Other liabilities" include euro 4,693 thousand in payables to other parties in respect of the amount owed by the Iraqi Ministry of Defence (see Note 11).

NOTE 24 - CONSTRUCTION CONTRACTS - LIABILITIES

These are analyzed as follows:

(euro/000)	31.12.2019			31.12.2018		
	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities	Construction contracts - gross	Invoices issued and provision for future losses	Construction contracts - net liabilities
Shipbuilding contracts	4,080,158	5,305,142	1,224,984	2,505,411	4,062,921	1,557,510
Other contracts for third parties						
Client advances		57,729	57,729		37,283	37,283
TOTAL	4,080,158	5,362,871	1,282,713	2,505,411	4,100,204	1,594,793

"Construction contracts - liabilities" report those contracts where the value of the stage of completion of the contract is less than the amount invoiced to the client. The stage of completion is determined as the costs incurred to date plus recognized margins less any expected losses.
"Client advances" refer to contracts on which work had not started at the year-end reporting date.

NOTE 25 - TRADE PAYABLES AND OTHER CURRENT LIABILITIES

These are analyzed as follows:

(euro/000)	31.12.2019	31.12.2018
Payables to suppliers	1,777,752	1,471,101
Payables to suppliers for reverse factoring	492,404	377,487
Social security payables	45,019	37,327
Other payables to employees for deferred wages and salaries	91,571	76,454
Other payables	101,695	84,335
Other payables to the Parent Company (tax consolidation)	9,118	47,459
Indirect tax payables	26,527	18,007
Firm commitments	1,397	697
Accrued expenses	5,315	2,576
Deferred income	2,903	847
TOTAL TRADE PAYABLES AND OTHER CURRENT LIABILITIES	2,553,701	2,116,290

"Payables to suppliers" shows an increase of euro 306,651 thousand compared to 31 December 2018, essentially correlated to the higher volumes achieved in the last quarter of 2019 in particular.
"Payables to suppliers for reverse factoring" report the liabilities to suppliers who have relinquished their creditor position with Fincantieri to a factoring company.
"Social security payables" include amounts due to INPS (the Italian social security authorities) for employer and employee contributions on December's wages and salaries and contributions on end-of-period wage adjustments.
"Other payables" include employee income tax withholdings payable to tax authorities, sundry payables for insurance premiums, advances received against research grants, amounts payable to employee supplementary pension funds and security deposits received.
"Indirect tax payables" include euro 18,231 thousand for indirect tax liabilities of the VARD Group.
"Firm commitments" reflect the fair value of hedged items in fair value hedges adopted by the VARD Group to hedge currency risk arising on construction contracts in currencies other than the functional currency.

NOTE 26 - INCOME TAX LIABILITIES

(euro/000)	31.12.2019	31.12.2018
Italian corporate income taxation (IRES)	1,619	1,269
Italian regional tax on productive activities (IRAP)	1,445	190
Foreign tax	3,938	2,841
TOTAL INCOME TAX LIABILITIES	7,002	4,300

NOTE 27 - CURRENT FINANCIAL LIABILITIES

These are analyzed as follows:

(euro/000)	31.12.2019	31.12.2018
Commercial papers	75,000	231,000
Bank loans and credit facilities - current portion	140,336	51,544
Loans from BIIS - current portion	4,762	7,751
Bank loans and credit facilities - Construction loans	811,410	632,482
Other short-term bank debt	162,674	195,930
Liabilities to other lenders - current portion	1,035	906
Bank credit facilities repayable on demand	97	1,287
Payables to joint ventures	1,573	1,716
Payables to associates	55	
Finance lease obligations - current portion		210
Financial liabilities for leasing IFRS 16 – current portion	15,441	
Fair value of options on equity investments	21,542	19,389
Derivative liabilities	21,681	37,880
Accrued interest expense	2,565	2,751
TOTAL CURRENT FINANCIAL LIABILITIES	1,258,171	1,182,846

For “Bank loans and credit facilities - current portion” and “Loans from BIIS - current portion”, see Note 22.

“Construction loans” are analyzed as follows at 31 December 2019:

(euro/000)	31.12.2019	31.12.2018
CONSTRUCTION LOANS		
Italy	550,000	50,000
Norway	261,410	412,535
Brazil		169,947
TOTAL CONSTRUCTION LOANS	811,410	632,482

With reference to the Euro-Commercial Paper Step Label program structured by the Parent Company in December 2017 for a maximum of euro 500 million, euro 75 million of this financing had been drawn down as at 31 December 2019. Construction loans are project specific and are secured by the vessels under construction. These loans are repaid in full by the time of vessel delivery or upon expiry of the loan agreement if earlier. It should also be noted that in the event of shipbuilding contract cancellation, the bank is entitled to request early repayment of the loan unless the Group provides adequate guarantees. The existing facilities of euro 1,490 million are detailed as follows:

- In December 2018, FINCANTIERI S.p.A. agreed with a syndicate of leading national banks, including Cassa Depositi e Prestiti, a construction loan for up to 300 million to finance the construction of a cruise ship. As at 31 December 2019, euro 275 million of this loan had been drawn down.
- In June 2019, the Parent Company entered into a revolving facility with a leading Italian bank dedicated to financing the construction of cruise ships for an amount of euro 500 million ending in December 2022. As at 31 December 2019, euro 75 million of this facility had been drawn down.
- In November 2019, construction financing was agreed with a syndicate of a leading international bank and a leading Italian bank for up to euro 300 million, to be disbursed in line with the progress of works on a cruise ship. As at 31 December 2019, euro 200 million of this loan had been drawn down.
- Vard Group AS has existing construction loan facilities with DNB, Sparebanken 1 SMN and Deutsche Bank for a total of NOK 3,848 million. These facilities had been drawn down by a total of NOK 2,578 million at 31 December 2019. These facilities with DNB and Sparebanken 1 SMN carry covenants as on consolidated equity (minimum NOK 1,500 million), on consolidated cash and cash equivalents, which must be at least NOK 500 million and on net working capital with a minimum of zero. At 31 December 2019 Vard obtained from the banks a waiver of the covenants relating to equity and net working capital.

The construction loans drawn down at 31.12.2019 consist entirely of a variable-rate portion (carrying rates at 31 December 2019 of between 0.5% and 5.2%).
Some of the construction loans include immediate repayment clauses triggered by circumstances of economic and financial distress of clients, construction of whose ships is being financed with such loans. None of the main banks financing the VARD Group has reported the occurrence of such circumstances.
“Other short-term bank debt” at 31 December 2019 includes the drawing down of uncommitted lines of credit for euro 155 million relating to VARD, euro 6 million of relating to INSIS and euro 2 million relating to Fincantieri Shanghai.
At 31 December 2019, the Group had a total of euro 600 million in committed lines of credit with leading Italian and international banks maturing between 2020 and 2024. In addition to committed credit lines, the Group has access to additional uncommitted credit lines with leading Italian and international banks in different currencies (about euro 661 million).
“Payables to joint ventures” relate to the negative balance on the intercompany current account with Orizzonte Sistemi Navali.
“Fair value of options on equity investments” (Level 3) amounting to euro 21,542 (euro 19,389 thousand at 31 December 2018) is related to the option held by minority shareholders of the American Group FMG, the increase in which since 2018 is due to the revaluation recognized in profit and loss under financial costs for euro 2.670 thousand and, for the remainder, to the positive effect of translating the balance expressed in foreign currency.
The fair value of derivative financial instruments has been calculated considering market parameters and using widely accepted measurement techniques (Level 2). Further details can be found in Note 4.

NOTE 28 - REVENUE AND INCOME

These are analyzed as follows:

(euro/000)

	2019	2018
Sales and service revenue	3,634,541	4,112,276
Change in construction contracts	2,140,310	1,256,620
Operating revenue	**5,774,851**	**5,368,896**
Gains on disposal	119	219
Sundry revenue and income	67,600	74,518
Government grants	6,638	30,387
Other revenue and income	**74,357**	**105,124**
TOTAL REVENUE AND INCOME	**5,849,208**	**5,474,020**

For detail of the revenue broken down by the Group's operating segments, please refer to Note 35. It should be noted that almost all the revenue relating to naval and service contracts is recognized gradually over time. "Government grants" includes euro 1,214 thousand grants for the year recognized by the Parent Company for the loan for innovative projects on products and processes in the naval vessel sector, under Law 190 of 2014, assigned in November and December 2016. The remaining part is the grants related to income (euro 2,233 thousand) and capital (euro 3,191 thousand) mainly related to the Parent Company, the subsidiary Cetena S.p.A. and the US subsidiary Fincantieri Marine Group LLC. Sundry revenue and income comprise:

(euro/000)

	2019	2018
Penalties charged to suppliers	14,700	11,471
Rental income	1,021	810
Insurance claims	11,090	30,861
Recharged costs	16,945	8,402
Income from third parties relating to personnel	2,216	212
Other sundry income	21,470	21,836
Gains on trading foreign currency derivatives	148	456
Gains on hedging instruments not qualifying for hedge accounting		
Other income	10	470
Total	**67,600**	**74,518**

"Recharged costs", of euro 16,945 thousand, mainly refer to various kinds of recharge to customers and suppliers not attributable to specific cost categories.
"Other sundry income" of euro 21,470 thousand mainly includes the recharge of services made available to subcontractors at the shipyards and out-of-period income and adjustments arising on settlements agreed with suppliers during the year.

NOTE 29 - OPERATING COSTS

Materials, services and other costs

Materials, services and other costs are analyzed as follows:

(euro/000)	2019	2018
Raw materials and consumables	(2,881,856)	(2,901,600)
Services	(1,463,044)	(1,148,803)
Leases and rentals	(36,168)	(45,126)
Change in inventories of raw materials and consumables	14,128	27,051
Change in inventories work in progress and finished products	(94,888)	(14,346)
Sundry operating costs	(75,897)	(33,348)
Cost of materials and services capitalized in fixed assets	17,616	12,122
Total materials, services and other costs	**(4,520,109)**	**(4,104,050)**

The increase in Sundry operating costs is mainly due to the increase in 2019 of costs in transactions with customers. Sundry operating costs also include euro 1.422 thousand in losses on the disposal of non-current assets (euro 708 thousand at 31 December 2018).
Details of the cost of services are as follows:

(euro/000)	2019	2018
Subcontractors and outsourced services	(861,408)	(612,769)
Insurance	(45,134)	(38,970)
Other personnel costs	(36,564)	(32,655)
Maintenance costs	(26,591)	(22,768)
Commissioning and trials	(11,691)	(21,544)
Outsourced design costs	(51,741)	(30,867)
Licenses	(8,578)	(7,372)
Transportation and logistics	(41,796)	(28,073)
Technical and other services	(309,659)	(299,579)
Cleaning services	(42,147)	(35,451)
Electricity, water, gas and other utilities	(55,896)	(42,882)
Utilization of product warranty and other provisions	28,161	24,127
Total cost of services	**(1,463,044)**	**(1,148,803)**

"Leases and rentals" amounting to euro 36,168 thousand (euro 45,126 thousand at 31 December 2018) include rental and hire costs of euro 26,641 thousand (euro 26,987 thousand at 31 December 2018), lease costs of euro 9,216 thousand (euro 15,214 thousand at 31 December 2018), and concession and similar fees of euro 311 thousand (euro 2,925 thousand at 31 December 2018). The change in this item is attributable to the first-time adoption of IFRS 16.
It should be note that "Technical and other services" includes charges related to the "Performance Share Plan" (euro 1,059 thousand) for the portion for the Parent Company's Chief Executive Officer. More details on the operation can be found in Note 33.

PERSONNEL COSTS

(euro/000)	2019	2018
Personnel costs:		
- wages and salaries	(750,547)	(704,634)
- social security	(187,836)	(188,023)
- costs for defined contribution plans	(35,570)	(36,598)
- costs for defined benefit plans	(1,232)	(13)
- other personnel costs	(33,237)	(27,515)
Personnel costs capitalized in fixed assets	7,027	5,168
Total personnel costs	**(1,001,395)**	**(951,615)**

"Personnel costs" represent the total cost incurred for employees, including wages and salaries, employer social security contributions payable by the Group, gifts and travel allowances. The change of euro 49,780 thousand compared to 31 December 2018 is partly attributable to the increase in average resources employed in the Group's Italian yards.
It should be noted that "Other personnel costs" includes charges related to the "Performance Share Plan" (euro 4,014 thousand). More details on the operation can be found in Note 33.
Personnel costs include euro 4,188 thousand in non-recurring expenses attributable to the subsidiary VARD (see Note 33).

Headcount

Employees are distributed as follows:

(number)	2019	2018
Employees at year end:		
Total at year end	19,823	19,274
- of whom in Italy	9,334	8,662
- of whom in Parent Company	8,287	7,874
- of whom in VARD	8,437	8,664
Average number of employees	19,546	19,331
- of whom in Italy	9,002	8,400
- of whom in Parent Company	8,036	7,677
- of whom in VARD	8,585	8,970

DEPRECIATION, AMORTIZATION AND IMPAIRMENT AND PROVISIONS

(euro/000)	2019	2018
Depreciation and amortization:		
- amortization of intangible assets	(57,170)	(50,041)
- depreciation of rights of use	(16,644)	
- depreciation of property, plant and equipment	(87,963)	(86,057)
Impairment:		
- impairment of goodwill	(394)	
- impairment of intangible assets	(479)	(222)
- impairment of rights of use	(906)	
- impairment of property, plant and equipment	(3,953)	(39)
Total depreciation, amortization and impairment	**(167,509)**	**(136,359)**
Provisions:		
- impairment of contractual assets	(12,604)	
- impairment of receivables	(1,344)	(9,923)
- increases in provisions for risks and charges	(73,467)	(66,066)
- release of provisions and impairment reversals	12,879	17,230
Total provisions	**(74,536)**	**(58,759)**

A breakdown of depreciation and amortization is provided in Notes 6, 7 and 8. The impairment of contractual assets refers to the impairment on construction contracts, reclassified under property, plant and equipment, and commented on in Note 8. "Impairment of receivables" relates to prudent appropriations to align the nominal value of receivables with estimated realizable value.

"Increases in provisions for risks and charges" mainly comprise provisions for obligations deriving from contractual warranties for 31,897 thousand (euro 28,493 thousand at 31 December 2018), and provisions for litigation for euro 35,040 (euro 36,857 thousand at 31 December 2018). More details about the nature of the provisions made can be found in Note 20 and Note 33

NOTE 30 - FINANCE INCOME AND COSTS

These are analyzed as follows:

(euro/000)	2019	2018
FINANCE INCOME		
Interest and fees from joint ventures and associates	299	323
Bank interest and fees and other income	5,011	5,592
Income from derivative financial instruments		73
Interest and other income from financial assets	6,360	2,031
Foreign exchange gains	40,929	28,616
Total finance income	**52,599**	**36,635**
FINANCE COSTS		
Interest and fees charged by joint ventures	(99)	(159)
Interest and fees from related parties	(2,745)	(168)
Interest and fees charged by controlling companies	(242)	(727)
Expenses from derivative financial instruments	(60,574)	(19,431)
Unrealized finance costs - delta fair value	(1,799)	(847)
Interest on employee benefit plans	(868)	(724)
Interest and fees on commercial papers	(627)	(10,878)
Interest and fees on construction loans	(13,834)	(24,620)
Bank interest and fees and other expense	(45,882)	(46,088)
Interest paid on leases IFRS 16	(3,535)	
Impairment of financial receivables IFRS 9	(6,927)	
Foreign exchange losses	(49,918)	(36,924)
Total finance costs	**(187,050)**	**(140,566)**
TOTAL FINANCE INCOME AND COSTS	**(134,451)**	**(103,931)**

"Finance income" in 2019 includes euro 251 thousand (euro 539 thousand in 2018) in interest formally paid by the Italian State to the Parent Company, but effectively paid to BIIS (Banca Infrastrutture Innovazione e Sviluppo) (with an equal amount recognized as finance expense), under the structure in place for the disbursement of government grants (see Note 10).

Finance costs in 2019 include euro 6,927 thousand of impairment of long-term financial receivables determined on the basis of the expected credit loss model introduced by IFRS 9. The change in expenses from derivative financial instruments is mainly due to the change in the fair value of the derivatives to hedge exchange rate risks following the weakening of the euro against the dollar.

NOTE 31 - INCOME AND EXPENSE FROM INVESTMENTS

These are analyzed as follows:

(euro/000)	2019	2018
INCOME		
Dividends from associates	50	
Dividends from other companies	31	39
Gains from sale of investments		3,695
Fair value measurement gains		2,671
Total income	**81**	**6,405**
EXPENSE		
Fair value measurement losses	(78)	(463)
Total expense	**(78)**	**(463)**
INCOME/(EXPENSE) FROM INVESTMENTS	3	5,942
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Profit	3,209	2,122
Loss	(6,377)	(5,027)
SHARE OF PROFIT/(LOSS) OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD	(3,168)	(2,905)
TOTAL INCOME AND EXPENSE FROM INVESTMENTS	**(3,165)**	**3,037**

Investments accounted for using the equity method show a profit of euro 3,209 thousand and refer mainly to the Group's share of the result for the year reported by the PSC Group (euro 1,310 thousand), CSSC - Fincantieri Cruise Industry Development Limited (euro 1,280 thousand) and Etihad Ship Building LLC (euro 542 thousand). The loss of euro 6,377 thousand mainly reflects the Group's share of the results for the year of Olympic Challenger KS (euro 4,518 thousand), Island Diligence AS (euro 583 thousand) and Møkster Supply KS (euro 532 thousand).
For more details on the changes to investments, see Note 9.

NOTE 32 - INCOME TAXES

These are analyzed as follows:

(euro/000)	2019		2018	
Current taxes		**(45,507)**		**(71,153)**
Deferred tax assets:				
- sundry impairment losses	(5,731)		(12,866)	
- product warranty	(1,925)		(1,385)	
- other risks and charges	(10,049)		1,910	
- fair value of derivatives	2,151			
- carry forward tax losses	(5,982)		10,058	
- other items	(15,066)		17,312	
- tax rate and other changes	2		(55)	
		(36,600)		14,974
Deferred tax liabilities:				
- business combinations	7,222		2,102	
- other items	2,912		857	
- tax rate and other changes	18			
		10,152		2,959
Total deferred taxes		**(26,448)**		**17,933**
TOTAL INCOME TAXES		**(71,955)**		**(53,220)**

Notes: Negative figures indicate the recognition of deferred tax liabilities or reversal of deferred tax assets. Positive figures indicate the reversal of deferred tax liabilities or recognition of deferred tax assets.

The theoretical tax rate is reconciled to the effective tax rate as follows:

(euro/000)	2019	2018
Theoretical corporate income tax rate (IRES)	**24%**	**24%**
Profit/(loss) before tax	(51,955)	122,342
Theoretical corporate income tax (IRES)	**12,469**	**(29,362)**
Impact of taxes relating to prior periods	9,467	(6,076)
Impact of tax losses	(2,872)	(13,673)
Impairment of deferred tax assets	(18,904)	
Impact of permanent differences and unrecognized temporary differences	(49,523)	14,238
Impact of temporary differences not recognized in previous years		2,203
Effect of change in tax rates	4,127	978
Impact of different tax rates applicable to foreign entities	(8,286)	(9,389)
Provisions for tax risks	(5,479)	
Tax credit on R&D costs	190	
Other taxes charged to profit or loss	**(13,144)**	**(12,139)**
Total income taxes through profit or loss	**(71,955)**	**(53,220)**
Current taxes	(45,507)	(71,153)
Deferred taxes	(26,448)	17,933

"Provisions for tax risks" refer to the provision made during the year to the tax risk provision in relation to certain preliminary investigations launched by the tax authorities in 2019 in Italy and Romania and which are still to be determined.
The following table shows a breakdown of current and deferred income taxes in Italy and other countries:

(euro/000)

	2019	2018
Current taxes	**(45,507)**	**(71,153)**
- Italian companies	(38,174)	(61,365)
- Foreign companies	(7,333)	(9,788)
Deferred taxes	**(26,448)**	**17,933**
- Italian companies	(26,436)	(20,015)
- Foreign companies	(12)	37,948
TOTAL	**(71,995)**	**(53,220)**

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

NOTE 33 - OTHER INFORMATION

Net financial position

The consolidated net financial position as monitored by the Group is presented below.

(euro/000)

	31.12.2019	31.12.2018
A. Cash	134	92
B. Other cash equivalents	381,656	676,395
C. Trading securities	-	-
D. Cash and cash equivalents (A)+(B)+(C)	**381,790**	**676,487**
E. Current financial receivables	**2,144**	**17,985**
- of which related parties	389	106
F. Current bank debt	(162,771)	(197,217)
- of which related parties	-	-
G. Bonds and commercial papers - current portion	(75,000)	(231,000)
H. Current portion of non-current debt	(142,907)	(54,292)
- of which related parties	(10,120)	(10,622)
I. Other current financial liabilities	(18,098)	(2,835)
- of which related parties	(1,575)	(1,702)
J. Current debt (F)+(G)+(H)+(I)	**(398,776)**	**(485,344)**
K. Net current debt (D)+(E)+(J)	**(14,842)**	**209,128**
L. Non-current financial receivables	**91,510**	**63,133**
- of which related parties	34,356	13,449
M. Non-current bank debt	(730,237)	(760,448)
- of which related parties	(30,376)	(40,487)
N. Bonds - non-current portion	-	-
O. Other non-current financial liabilities	(82,135)	(6,104)
P. Non-current debt (M)+(N)+(O)	**(812,372)**	**(766,552)**
Q. Net non-current debt (L)+(P)	**(720,862)**	**(703,419)**
R. Net financial position (K)+(Q)	**(735,704)**	**(494,291)**

For the purposes of complying with Consob Communication no. DEM/6064293/2006, the following table reconciles the above net financial position with the disclosure recommended by the European Securities and Markets Authority (ESMA).

(euro/000)

	31.12.2019	31.12.2018
Net financial position	**(735,704)**	**(494,291)**
Non-current financial assets	(91,510)	(63,133)
Construction loans	(811,410)	(632,482)
Net financial position as per ESMA recommendation	**(1,638,624)**	**(1,189,906)**

Statement of net financial debt flows

The following table shows the movements in the financial position with regard to financing activities and cash flows (IAS 7).

(euro/000)

	1.1.2018	Business combinations	Cash flows	Changes in fair value	Exchange rate differences	Other non-monetary changes	31.12.2018
Non-current financial liabilities	263,701		506,705		(7,830)	3,976	766,552
Non-current financial receivables	(122,794)		50,662		530	8,468	(63,134)
Current bank loans and credit facilities	797,672		54,706		518	31,095	883,991
Other current financial liabilities/receivables	(25,708)		9,398		1,004	156	(15,150)
Current bonds/ commercial papers	299,239		(68,239)				231,000
Receivables/payables for trading financial instruments	(3,025)			2,244			(781)
Total liabilities from financing activities	**1,209,085**	**-**	**553,232**	**2,244**	**(5,778)**	**43,695**	**1,802,478**
Purchase of non-controlling interests in VARD			(32,464)				
Purchase of own shares							
Third party capital		180					
CASH FLOWS FROM FINANCING ACTIVITIES		**180**	**520,768**	**2,244**			

(euro/000)

	1.1.2019	Business combinations	Cash flows	Changes in fair value	Exchange rate differences	Other non-monetary changes	31.12.2019
Non-current financial liabilities	766,552	3,702	90,902		(1,401)	(47,383)	812,372
Non-current financial receivables	(63,140)		(30,867)		(470)	2,967	(91,510)
Current bank loans and credit facilities	883,991	8,216	74,167		5,200	145,514	1,117,088
Other current financial liabilities/receivables	(15,150)	132	16,936		(2,229)	16,265	15,954
Current bonds/ commercial papers	231,000		(156,000)				75,000
Receivables/payables for trading financial instruments	(781)			781			
Total liabilities from financing activities	**1,802,472**	**12,050**	**(4,863)**	**781**	**1,100**	**117,363**	**1,928,904**
Purchase of non-controlling interests in VARD			(535)				
Purchase of own shares			(3,495)				
Third party capital			159				
CASH FLOWS FROM FINANCING ACTIVITIES		**12,050**	**(8,733)**	**781**			

Significant non-recurring events and transactions

In accordance with Consob Communication no. 0092543 of 3 December 2015 with reference to the provisions of Consob Resolution no. 15519 of 27 July 2006, only items considered to be non-recurring have been presented in the financial statements, excluding extraordinary ones outside of ordinary operations. The items reported refer to costs relating to reorganization plans and other non-recurring personnel costs of euro 8,816 thousand (no tax effects).

Atypical and/or unusual transactions

In accordance with the disclosures required by Consob Communication no. DEM/6064293 dated 28 July 2006, it is reported that no atypical and/or unusual transactions were carried out during 2019.

Related party transactions

Intragroup transactions, transactions with CDP Industria S.p.A. and its subsidiaries, with Cassa Depositi e Prestiti S.p.A. and its subsidiaries, with companies controlled by Italy's Ministry of Economy and Finance and with other related parties in general, do not qualify as either atypical or unusual, since they fall within the normal course of business of the Fincantieri Group and are conducted on an arm's length basis.
The figures for related party transactions and balances are reported in the following tables.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)

	31.12.2019							
	Non-current financial assets	Current financial assets	Advances*	Trade receivables and other non-current assets	Trade receivables and other current assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
CASSA DEPOSITI E PRESTITI S.p.A.					3,171	(30,376)	(10,120)	(9,109)
TOTAL CONTROLLING COMPANIES					3,171	(30,376)	(10,120)	(9,109)
ORIZZONTE SISTEMI NAVALI S.p.A.					101,518		(1,558)	(643)
UNIFER NAVALE S.r.l.			1,491					(595)
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	22,000	355			1,893			(383)
ETIHAD SHIP BUILDING LLC					6,094			(946)
CONSORZIO F.S.B.								(14)
BUSBAR4F S.c.a.r.l.			1,062		21			(1,145)
FINCANTIERI CLEA BUILDINGS S.c.a.r.l.					3			(610)
PERGENOVA S.c.p.a.					58,000			(58,037)
ISSEL MIDDLE EAST INFORMATION TECNOLOGY CONSULTANCY LLC		4					(17)	
NAVIRIS S.p.A.					95			
TOTAL JOINT VENTURES	22,000	359	2,553		167,624		(1,575)	(62,373)
ARSENAL S.r.l.								
PSC GROUP			4,743		38			(11,818)
CENTRO SERVIZI NAVALI S.p.A.					825			(351)
OLYMPIC CHALLENGER KS	532							
BREVIK TECHNOLOGY AS								
MØKSTER SUPPLY KS								
DOF ICEMAN AS	3,696							
CSS DESIGN								
ISLAND DILIGENCE AS	4,628							
T. MARIOTTI S.p.A.					43			
DECOMAR S.p.A.	3,500	30						
TOTAL ASSOCIATES	12,356	30	4,743		906			(12,169)
CDP IMMOBILIARE S.r.l.								
SACE FCT								
SACE S.p.A.								(11)
TERNA RETE ITALIA S.p.A.								52
VALVITALIA S.p.A.			1,550		3			(4,080)
SUPPLEMENTARY PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,290)
COMETA NATIONAL SUPPLEMENTARY PENSION FUND								(3,844)
SOLIDARIETÀ VENETO - PENSION FUND								(99)
ACAM CLIENTI S.p.A.								(1)
TOTAL CDP GROUP			1,550		3			(9,273)
QUANTA S.p.A.								(34)
EXPERIS S.r.l.								
LEONARDO GROUP			177,638		2,579			(24,736)
ENI GROUP					1,051			(62)
ENEL GROUP								
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE								(56)
TOTAL OTHER RELATED PARTIES			179,188		3,633			(34,161)
TOTAL RELATED PARTIES	34,356	389	186,484		175,334	(30,376)	(11,695)	(117,812)
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	92,603	9,329	467,017	17,523	1,079,388	(881,551)	(1,258,171)	(2,553,701)
% on consolidated statement of financial position	37%	4%	40%	0%	16%	3%	1%	5%

*"Advances" are classified in "Inventories", as detailed in Note 13.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(euro/000)

	31.12.2018							
	Non-current financial assets	Current financial assets	Advances*	Trade receivables and other non-current assets	Trade receivables and other current assets	Non-current financial liabilities	Current financial liabilities	Trade payables and other current liabilities
CASSA DEPOSITI E PRESTITI S.p.A.					2,926	(40,487)	(10,622)	(47,459)
TOTAL CONTROLLING COMPANIES					2,926	(40,487)	(10,622)	(47,459)
ORIZZONTE SISTEMI NAVALI S.p.A.					92,326		(1,702)	(1,269)
UNIFER NAVALE S.r.l.			1,491					(1,042)
CAMPER AND NICHOLSONS INTERNATIONAL SA								
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	8,400	86			39,528			
ETIHAD SHIP BUILDING LLC					7,598			(4,421)
CONSORZIO F.S.B.								
LUXURY INTERIORS FACTORY S.r.l.								(33)
TOTAL JOINT VENTURES	8,400	86	1,491		139,452		(1,702)	(6,765)
ARSENAL S.r.l.								(34)
PSC GROUP			656		18			(4,423)
CENTRO SERVIZI NAVALI S.p.A.					306			
OLYMPIC CHALLENGER KS	176							
BREVIK TECHNOLOGY AS	182							
MØKSTER SUPPLY KS	619							
DOF ICEMAN AS								
CSS DESIGN				673				
ISLAND DILIGENCE AS	4,072							
TOTAL ASSOCIATES	5,049		656	673	324			(4,457)
CDP IMMOBILIARE S.r.l.								
SACE FCT					11			(54)
TERNA RETE ITALIA S.p.A.								12
VALVITALIA S.p.A.			1,843		17			(1,593)
ACAM CLIENTI S.p.A.								(6)
SUPPLEMENTARY PENSION FUND FOR SENIOR MANAGERS OF FINCANTIERI S.p.A.								(1,199)
COMETA NATIONAL SUPPLEMENTARY PENSION FUND								(3,651)
SOLIDARIETÀ VENETO PENSION FUND								(93)
TOTAL CDP GROUP			1,843		28			(6,584)
QUANTA S.p.A.								(34)
EXPERIS S.r.l.								(9)
LEONARDO GROUP			197,748		1,967			(1,528)
ENI GROUP					613			218
ENEL GROUP								(1)
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE								(23)
TOTAL OTHER RELATED PARTIES			197,748		2,580			(1,377)
TOTAL RELATED PARTIES	13,449	86	201,738	673	145,310	(40,487)	(12,324)	(66,642)
TOTAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION	97,901	48,688	449,160	31,811	1,062,377	(792,728)	(1,182,846)	(2,116,290)
% on consolidated statement of financial position	14%	0%	45%	2%	14%	5%	1%	3%

*"Advances" are classified in "Inventories", as detailed in Note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	2019				
	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
CASSA DEPOSITI E PRESTITI S.p.A.		172	(136)		(242)
TOTAL CONTROLLING COMPANIES		172	(136)		(242)
ORIZZONTE SISTEMI NAVALI S.p.A.	167,475	637	(1,162)		(99)
UNIFER NAVALE S.r.l.		4	(11,975)		
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	7,912	3,603		269	
ETIHAD SHIP BUILDING LLC	221	270	(193)		
CONSORZIO F.S.B.	45	223	(302)		
BUSBAR4F S.c.a.r.l.	286	7	(917)		
FINCANTIERI CLEA BUILDINGS S.c.a.r.l.		5	(5,530)		
PERGENOVA S.c.p.a.	116,049	328	(29,080)		
NAVIRIS S.p.A.		95			
TOTAL JOINT VENTURES	291,988	5,172	(49,159)	269	(99)
ARSENAL S.r.l.			(26)		
PSC GROUP		266	(28,349)	4	
CENTRO SERVIZI NAVALI S.p.A.		915	(3,054)		
BREVIK TECHNOLOGY AS					
OLYMPIC GREEN ENERGY KS	6				
DOF ICEMAN AS	16				
REM SUPPLY AS	24				
TAKLIFT AS					
DECOMAR S.p.A.			(34)	30	
TOTAL ASSOCIATES	46	1,181	(31,463)	34	
CDP IMMOBILIARE S.r.l.					
SACE S.p.A.					(2,545)
SACE FCT		63			(200)
VALVITALIA S.p.A.		240	(16,361)		
TERNA RETE ITALIA S.p.A.			(111)		
SNAM S.p.A.			(81)		
ACAM CLIENTI S.p.A.		(3)	(3)		
TOTAL CDP GROUP		300	(16,556)		(2,745)
QUANTA S.p.A.			(281)		
EXPERIS S.r.l.			(43)		
LEONARDO GROUP	193	(460)	(112,193)		
ENI GROUP	15,518	133	(1,497)		
ENEL GROUP		57	(2)		
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE	26	36	(372)		
TOTAL OTHER RELATED PARTIES	15,737	66	(130,944)		(2,745)
TOTAL RELATED PARTIES	307,771	6,591	(211,702)	303	(3,086)
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5,774,851	74,357	(4,520,109)	52,599	(187,050)
% on consolidated statement of comprehensive income	5%	9%	5%	1%	2%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(euro/000)

	2018				
	Operating revenue	Other revenue and income	Materials, services and other costs	Finance income	Finance costs
CASSA DEPOSITI E PRESTITI S.p.A.			(88)		(734)
TOTAL CONTROLLING COMPANIES			(88)		(734)
ORIZZONTE SISTEMI NAVALI S.p.A.	257,617	762	(3,033)		(159)
UNIFER NAVALE S.r.l.			(10,696)		
CAMPER AND NICHOLSONS INTERNATIONAL SA				8	
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd.	4,148	1,268		86	
ETIHAD SHIP BUILDING LLC	6,125	290	(1,394)		
CONSORZIO F.S.B.	11	26	(61)		
LUXURY INTERIORS FACTORY S.r.l.		49	(2,142)		
TOTAL JOINT VENTURES	267,901	2,395	(17,326)	94	(159)
ARSENAL S.r.l.			(67)		
PSC GROUP		20	(2,897)		
CENTRO SERVIZI NAVALI S.p.A.			(241)		
BREVIK TECHNOLOGY AS					
DOF ICEMAN AS					
TOTAL ASSOCIATES		20	(3,205)		
CDP IMMOBILIARE S.r.l.			(379)		
SACE S.p.A.					(3,018)
SACE FCT		42			(168)
VALVITALIA S.p.A.		102	(8,286)		
TERNA RETE ITALIA S.p.A.			(69)		
TOTAL CDP GROUP		144	(8,734)		(3,186)
QUANTA S.p.A.			(1,014)		
EXPERIS S.r.l.			(168)		
LEONARDO GROUP	1,273	513	(75,053)		
ENI GROUP	1,935	92	(756)		
ENEL GROUP			(3)		
COMPANIES CONTROLLED BY MINISTRY OF ECONOMY AND FINANCE			(39)		
TOTAL OTHER RELATED PARTIES	3,208	605	(77,033)		
TOTAL RELATED PARTIES	271,109	3,164	(106,386)	94	(4,079)
TOTAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	5,368,896	105,124	(4,104,050)	36,635	(140,566)
% on consolidated statement of comprehensive income	5%	3%	3%	0%	3%

The main related party relationships refer to:

- the Company's transactions with Orizzonte Sistemi Navali S.p.A., under the agreement signed in 2006 with the Italian Navy relating to the first phase of the "Renaissance" (or FREMM) program. This program, for which Orizzonte Sistemi Navali S.p.A. is the prime contractor, involves the construction of 10 ships for the Italian Navy, with ship design and production activities performed by the Company and its subsidiaries. The financial liabilities with Orizzonte Sistemi Navali S.p.A. at 31 December 2019 and 2018 relate to its current account with Fincantieri under a centralized treasury management arrangement;
- the Group's transactions with the LEONARDO group, in connection with agreements to supply and install combat systems for naval vessels under construction;
- the Group's relations with the newly formed company PERGENOVA, a joint venture between Salini Impregilo and Fincantieri Infrastructure, are aimed at rebuilding the bridge over the Polcevera river in Genoa;
- relations with the joint venture CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT Ltd. between Fincantieri and CSSC, prime contractor for the construction of new cruise ships at the CCSC group's Chinese shipyard, refer to the supply of specialist services and components to support CSSC shipyards;
- the Group's transactions with the PSC Group refer mainly to the supply of turnkey air conditioning systems (engineering, supply of ventilation machines, accessories and ducts, their installation on board, start-up and commissioning);
- in relation to transactions with ENI, the framework agreement was finalized in 2018 under which studies were launched for new technologies related to gas exploitation. The rest refers chiefly to the sale of products and services and purchases of fuel with ENI S.p.A.;
- costs and revenue or receivables and payables with other related parties at 31 December 2019 and 2018 refer chiefly to the supply of goods or services used in the production process.

The following transaction is also reported in accordance with art. 13, par. 3(c) of the Consob Regulations concerning related party transactions:

- the granting to FINCANTIERI S.p.A., in May 2019, expiring in March 2021, by Cassa Depositi e Prestiti S.p.A. of a Revolving Credit Facility for a maximum amount of euro 100 million to cover financial requirements for ordinary activities and to finance research, development and innovation programs for the year 2018-2021. As at 31 December 2019, this credit facility had not been drawn down.

It is also reported that FINCANTIERI S.p.A. entered into five Exporter Indemnity Agreements in favour of SIMEST S.p.A., as standard transactions of lesser importance. In the context of standard transactions of lesser importance, FINCANTIERI S.p.A. was granted a five-year revolving credit line by Mediocredito Centrale in June 2019 to cover financial needs for ordinary activities.
It is reported that, at 31.12.2019, a construction loan, granted in December 2018 by Cassa Depositi e Prestiti S.p.A., in syndicate with two leading national banks, had been drawn down for euro 275 million (of which euro 82.5 million the share of Cassa Depositi e Prestiti S.p.A.).

REMUNERATION OF THE BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS, INDEPENDENT AUDITORS AND KEY MANAGEMENT PERSONNEL

(euro/000)	Emoluments of office[1]	Non-monetary benefits	Bonuses and other incentives	Other remuneration
		2019		
Board of Directors of Parent Company	2,018	4	1,797[2]	
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		168	1,812[2]	1,993
Independent Auditors for Parent Company	363			410
		2018		
Board of Directors of Parent Company	1,741	4	1,854[3]	
Board of Statutory Auditors of Parent Company	89			
General Managers and Key Management Personnel		200	1,725[3]	2,211
Independent Auditors for Parent Company	349			325

1 Excluding amounts paid on behalf of subsidiaries
2 This figure includes euro 1,059 thousand for the Board of Directors and euro 1,073 thousand for the General Manager and Key Management Personnel, the fair value accrued in 2019 of the rights assigned under the medium/long-term share-based incentive plan for management (Performance Share Plan 2016-2018 and Performance Share Plan 2019-2021).
3 This figure includes euro 1,122 thousand for the Board of Directors and euro 991 thousand for the General Manager and Key Management Personnel, the fair value accrued in 2018 of the rights assigned under the medium/long-term share-based incentive plan for management (Performance Share Plan 2016-2018).

More details can be found in the Remuneration Report.
The fees of the independent auditors cover the statutory audit of the separate financial statements and the audit of the IFRS consolidated financial statements and the reporting package for Cassa Depositi e Prestiti S.p.A., the controlling company.

Basic and diluted earnings/(loss) per share

The basic assumptions for calculating basic and diluted Earnings/(Loss) Per Share are as follows:

		31.12.2019	31.12.2018
Basic/Diluted Earnings/(Loss) Per Share			
Profit/(loss) attributable to owners of the parent	euro/000	(141,242)	72,440
Weighted average number of shares outstanding to calculate the basic earnings/(loss) per share	Number	1,689,527,202	1,687,412,180
Weighted average number of shares outstanding to calculate the diluted earnings/(loss) per share	Number	1,698,210,974	1,699,032,738
Basic earnings/(loss) per share	euro	**(0,08360)**	**0,04293**
Diluted earnings/(loss) per share	euro	**(0,08317)**	**0,04264**

Basic earnings per share have been calculated by dividing the profit for the year attributable to owners of the parent by the weighted average number of Fincantieri S.p.A. shares outstanding during the year, excluding own shares.
Diluted earnings per share have been calculated by dividing the profit for the year attributable to the Group by the weighted average number of Fincantieri S.p.A. shares in circulation during the year, excluding own shares, plus the number of shares that could potentially be issued. At 31 December 2019, the shares that could potentially be issued concerned only the shares assigned under the Performance Share Plan 2016-2018 and the Performance Share Plan 2019-2021 described below.

Guarantees

Guarantees relate exclusively to those provided by the Parent Company and are broken down as follows:

(euro/000)

	2019	2018
Sureties	11,702	11,828
Other guarantees	3,090	4,286
Total	**14,792**	**16,114**

"Sureties" at 31 December 2019, as in 2018, entirely refer to guarantees issued on behalf of the joint venture Orizzonte Sistemi Navali S.p.A.
"Other guarantees" refer to guarantees issued in the interest of BUSBAR4F (euro 2,742 thousand), Orizzonte Sistemi Navali S.p.A. (euro 277 thousand) and Consorzio FSB (euro 71 thousand).
It should be noted that the Parent Company has guaranteed financial support to the subsidiary Vard Holdings Ltd and all its subsidiaries for a period of 18 months from the date of approval of the 2019 financial statements, committing itself to providing the financial resources that may be necessary to enable it to continue operations. During 2019, the Parent Company provided the necessary financial support to the VARD Group through the Share Capital increase of Vard Holdings Ltd, carried out through Fincantieri Oil&Gas, for euro 88 million, and the granting of a committed loan, in the form of a revolving credit facility, for euro 90 million.

Medium/long-term incentive Plan

Performance Share Plan 2016-2018

On 19 May 2017, the Shareholders' Meeting of FINCANTIERI S.p.A. approved the medium/long-term share-based incentive plan for management, called the Performance Share Plan 2016-2018 (the "Plan") and related Terms and Conditions. It should be noted that the related project had been approved by the Board of Directors on 10 November 2016.
The Plan, structured in 3 three-year cycles, provides for the free grant, to the beneficiaries identified by the Board of Directors, of entitlements to receive a maximum of 50,000,000 ordinary shares in FINCANTIERI S.p.A. without nominal value, based on the achievement of specific performance targets for the three-year periods 2016-2018 (first cycle), 2017-2019 (second cycle) and 2018-2020 (third cycle). The performance targets for all three cycles have been identified as Total Shareholder Return ("TSR") and EBITDA, deemed to represent objective criteria for measuring long-term value creation for the Company.
The Plan provides for a three-year vesting period for all beneficiaries from the date the entitlements are awarded to the date the shares are allotted to the beneficiaries. Therefore, if the performance targets are achieved and the other conditions of the Plan's Terms & Conditions satisfied, the shares vesting for the first cycle will be allotted and delivered to beneficiaries by 31 July 2019, while those vesting for the second and third cycles will be allotted and delivered by 31 July 2020 and 31 July 2021 respectively.
The Plan also provides for a lock-up period for part of the shares given to members of the Board of Directors or key management personnel of the Company.
With reference to the Plan's first cycle, 9,101,544 ordinary shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 15 December 2016; while, for the second cycle, 4,170,706 shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 25 July 2017; and lastly, for the third and last cycle, 3,604,691 shares in the Parent Company were awarded to the beneficiaries identified by the Board of Directors on 22 June 2018.
The economic and financial performance targets are comprised of two elements:

a) "market based" component (with a 30% weight on total entitlements awarded) linked to measuring Fincantieri's performance in terms of TSR related to the FTSE ITALY ALL SHARE and the peer group identified by the Company;
b) "non-market based" component (with a 70% weight on total entitlements awarded) linked to the achievement of the Group's set EBITDA targets.

With reference to the market based component, the Monte Carlo calculation method is used, based on appropriate assumptions, which enables a consistent number of alternative scenarios to be defined over the time period in consideration. Unlike the market based performance target, the non-market based component (EBITDA) is not relevant for the fair value estimation, but is updated every quarter in order to take into account the expectations relating to the number of entitlements that could vest, depending on the achievement of the set EBITDA targets. To estimate of the number of entitlements at the reporting date, it is assumed that the targets are achieved.

The fair value amount determined on the grant date for each cycle of the Plan is illustrated below.

	Grant date	No. shares awarded	Fair value
First cycle of the Plan	19 May 2017	9,101,544	6,866,205
Second cycle of the Plan	25 July 2017	4,170,706	3,672,432
Third cycle of the Plan	22 June 2018	3,604,691	3,963,754

With reference to the Performance Share Plan 2016-2018, it should be noted that on 27 June 2019, the Board of Directors approved the closure of the first cycle of the "Performance Share Plan 2016-2018" incentive plan, allocating free of charge to the recipients 10,104,787 ordinary Fincantieri shares through the use of 2,572,497 own shares in portfolio and by issuing 7,532,290 new shares, without a par value. The issue and delivery of the shares took place on 30 July 2019.
The Plan's features, outlined above, are described in detail in the special document prepared by the Company under Art. 84-bis of Consob Regulation No. 11971 of 14 May 1999, made available to the public on the website "www.fincantieri.it" in the section "Ethics and Governance – Shareholders' Meeting – Shareholders' Meeting 2017".

Performance Share Plan 2019-2021
On 11 May 2018, the Shareholders' Meeting of FINCANTIERI S.p.A. approved the Performance Share Plan 2019-2021 (the "Plan") for management, and the related Terms and Conditions, the structure of which was defined by the Board of Directors at the meeting held on 27 March 2018.
The Plan, structured in 3 three-year cycles, provides for the free grant, to the beneficiaries identified by the Board of Directors, of entitlements to receive a maximum of 25,000,000 ordinary shares in FINCANTIERI S.p.A. without nominal value, based on the achievement of specific performance targets for the three-year periods 2019-2021 (first cycle), 2020-2022 (second cycle) and 2021-2023 (third cycle).
The Plan provides for a three-year vesting period for all beneficiaries from the date the entitlements are awarded to the date the shares are allotted to the beneficiaries. Therefore, if the performance targets are achieved and the other conditions of the Plan's Terms & Conditions satisfied, the shares vesting for the first cycle will be allotted and delivered to beneficiaries by 31 July 2022, while those vesting for the second and third cycles will be allotted and delivered by 31 July 2023 and 31 July 2024 respectively.
The Plan also provides for a lock-up period for part of the shares given to members of the Board of Directors or key management personnel of the Company. The free award of a number of rights is left to the Board of Directors, which also has the power to identify the number and names of the beneficiaries.
With reference to the Plan's first cycle, 6,842,940 ordinary shares in FINCANTIERI S.p.A. were awarded to the beneficiaries identified by the Board of Directors on 24 July 2019.
Among the Plan's targets, in addition to the EBITDA and TRS already included in the Performance Share Plan 2016-2018, the Group introduced another parameter, the sustainability index, to measure achievement of the sustainability targets set by the Group in order to align with European best practices and the financial community's increased expectations for sustainable development.
The references used to test achievement of the sustainability target are market parameters such as the "CDP" (Carbon Disclosure Project) and a second rating by another agency which evaluates the entire basket of sustainability aspects.
The fair value amount determined on the grant date for each cycle of the Plan is illustrated below.

	Grant date	No. shares awarded	Fair value
First cycle of the Plan	24 July 2019	6,842,940	6,668,616

The Plan's features, outlined above, are described in detail in the special document prepared by the Parent Company under Art. 84-bis of Consob Regulation No. 11971 of 14 May 1999, made available to the public on the website www.fincantieri.it in the section "Ethics and Governance – Shareholders' Meeting – Shareholders' Meeting 2018".

Litigation

Foreign litigation
With reference to the "Iraq" dispute, described in detail in the Notes to the Consolidated Financial Statements at 31 December 2014 and the subject of various subsequent updates, it is recalled that following the failure to agree the operating contracts (Refurbishment Contract and Combat System Contract) required for the Settlement Agreement, the Iraqi Government stepped up the proceedings pending before the Appeals Court of Paris against the arbitration awarded to Fincantieri. On 18 January 2018, the Appeals Court of Paris rejected the counterparty's claims. On 20 June 2018 the Iraqi Government notified Fincantieri of its appeal before the French Supreme Court against the decision of the Appeals Court of Paris. In a ruling issued on 15 January 2020, the French Court of Cassation finally rejected the Iraqi Government's appeal in its entirety.
In relation to the "Serene" dispute, on 7 May 2019, Fincantieri and Serena Equity Limited entered into a settlement agreement which resulted in the termination of all proceedings in the English courts and other proceedings pending in other jurisdictions.
With reference to the "Papanikolaou" dispute, brought before the Court of Patras (Greece) by Mr. Papanikolaou and his wife against the Company, Minoan Lines and others following the accident that occurred to the plaintiff in 2007 on board the Europa Palace, built by Fincantieri: (i) in the case relating to the alleged loss of income until 2012, the Patras Court of Appeal has agreed with the main principles of law stated by the Court of Cassation (which referred the case back to the Court of Appeal in relation to a relatively minor point), but Fincantieri can appeal against the ruling before the Court of Cassation, whilst (ii) the case relating to the alleged loss of income from 2012 to 2052 is currently suspended.
With regard to the "Yuzwa" dispute pending in the District Courts of California and Florida, brought by Mr Yuzwa against Fincantieri, Carnival and others for losses suffered by the claimant following an accident aboard the ship "Oosterdam" in 2011, built by Fincantieri, the Florida Court of Appeal upheld Fincantieri's exclusion request, acknowledging the lack of jurisdiction, and then rejected the request for review and extraordinary appeal brought by the counterparty. The time limit for a further

appeal to the Supreme Court has expired. With reference to the claim brought by the Brazilian subsidiary Vard Promar against Petrobas Transpetro S.A., after the losses incurred on eight shipbuilding contracts, a claim for compensation is pending. In December 2015, Petrobas Transpetro S.A. terminated the contracts for the construction of two vessels and demanded repayment of its previous advance payments. The related claim has been brought in the court of the State of Rio de Janeiro. VARD has not recognized any receivable in its financial statements at 31 December 2019 for the Transpetro disputes.

Italian litigation

Client credit recovery

With reference to legal action against customers that are insolvent, bankrupt or the subject of other reorganization measures, with whom disputes have arisen, it is reported that legal actions are continuing against Tirrenia and Siremar, both under special administration.
The Parent Company's credits have been appropriately impaired in cases where the expectation of recovery is less than the amount of the credit.

Litigation with suppliers

These are disputes involving claims by suppliers and contractors that the Parent Company considers unjustified (alleged contractual liability, alleged receivables for invoices not due or for extra items not due), or concerning the recovery of extra costs and/or losses incurred by the Company due to supplier or contractor breaches of contract. In some cases, it has been considered appropriate to bring negative assessment actions against such alleged claims relating in one case to rectification of an alleged excessive downward adjustment applied to a relationship described by the other party as a subcontract and in another case, following the termination of orders commissioned and reaching of a settlement agreement.
A provision for risks and charges has been recognized for those disputes not thought to be settled in the Group's favor.

Employment litigation

This refers to cases brought by employees and former employees of contractors and subcontractors, which involve the Company under the "customer co-liability" principle (art. 1676 of the Italian Civil Code and art. 29 of Legislative Decree 276/2003).
Litigation relating to asbestos continued to be settled both in and out of court in 2019.

Other litigation

Other litigation includes: i) claims involving government bodies for environmental expenses, including disputes with the City of Ancona and the dispute with the Ministry of the Environment involving the shipyard in Muggiano; ii) appeals against claims by social security authorities, including litigation against INPS for claims arising from the non-payment of contributions by contractors and subcontractors under the customer co-liability principle; iii) compensation for direct and indirect damages arising from the production process; iv) civil actions for injury compensation claims.
Whenever the outcome of such litigation is thought to result in a possible outflow of economic resources, suitable provisions for risks and charges have been recognized.

Criminal prosecutions under Legislative Decree 231/2001

The Group is currently involved in seven criminal prosecutions brought under Legislative Decree no. 231/2001 in the Court of Gorizia.

- In January 2014, FINCANTIERI S.p.A. received notice of a request for extension of the deadline for the preliminary investigations, under art. 406 of the Code of Criminal Procedure, into the former manager of the Monfalcone shipyard for the alleged infringement of Art. 256, par. 1, subsections a) and b) of Legislative Decree No. 152/2006, as well as into the Company, being investigated under art. 25-undecies of Legislative Decree No. 231/2001 in relation to its alleged management of areas for sorting and the temporary storage of hazardous waste at the Monfalcone shipyard without the required authorization, and the alleged disposal of such waste with documentation that did not allow it to be traced. With regard to this case, in October 2017 the former Managers of the Monfalcone shipyard, the former General Managers of the Company, the Company's former Head of Safety and the former Head of Personnel were notified of the conclusion of the preliminary investigations for the offences referred in art. 256, par. 1, subsections a) and b) of Legislative Decree No. 152/2006 ("Unauthorized waste management activities"); in April 2018, the Company was also notified of the conclusion of the investigations for the alleged offence pursuant to art. 25-undecies of Legislative Decree No. 231/2001 ("Environmental Crimes"). In September 2018, the court summons to trial was served on all those under investigation. At the hearing of 6 March 2019, the judge ruled that no action should be taken against the former Manager of the Monfalcone plant in office until 30 June 2013, the former General Managers of the Company, the former Head of Safety and the former Head of Personnel of the Company, or against the Company, for the facts established in May 2013, under the statute of limitations. The trial continues against the former Plant Manager in office since 1 July 2013 and the Company (as regards the facts established in February 2015). The next hearing is scheduled for 19 February 2020 for the continuation of the investigative activities.
- Between March and April 2014, notices of conclusion of preliminary investigations were served not only on twenty-one individuals (including members of the Board of Directors and of the Supervisory Body and employees of the Company at the date of the event, some of whom are still in office or employed by the Company) in the various capacities being investigated for the offences of "wilful removal or omission of precautions against workplace accidents" and "bodily harm through negligence" under articles 437 and 590 of the Italian Criminal Code and of violation of certain provisions of Legislative Decree no. 81/2008, as well as against the Company under art. 25-septies, par. 3, of Legislative Decree no. 231/2001, in connection with an injury to an employee on 13 December 2010 at the Monfalcone shipyard during the lifting of two bundles of iron pipes. At the preliminary hearing on 18 December 2014, the proceedings against the members of the Board of Directors and the Supervisory Body and the two General Managers were dismissed, while the other employees of the Company at the date of the incident, as notified above, were formally indicted. Gorizia's public prosecutor has challenged the verdict of no case to answer in the Court of Cassation which, at the end of the hearing held on 20 January 2016, rejected the appeal and upheld the dismissal of the case against members of the Board of Directors and the Supervisory Body, as well as the two General Managers. The Company was acquitted at the hearing held on 14 July 2017 and the decision was appealed by the public prosecutor. At the hearing on 27 November 2019, the Court of Appeal upheld the acquittal.
- In September 2015, notices of conclusion of preliminary investigations were served not only on the former Monfalcone shipyard

manager and three other employees under investigation for violation of art. 19, letter f), and art. 71 of Legislative Decree no. 81/2008 (respectively concerning breach of management obligations and failure to provide suitable personal protective equipment) and in general of art. 2087 of the Italian Civil Code (failure to adopt suitable measures to protect worker health), but also on the Company itself, under art. 25-septies, par. 1, 2 and 3, of Legislative Decree no. 231/2001, in connection with an accident on 24 November 2009 at the Monfalcone shipyard involving an employee, resulting in a sprained shoulder that took a year to heal.

• In March 2016, notices of conclusion of preliminary investigation were served on the former Monfalcone shipyard manager, under investigation for the offense of "bodily harm through negligence" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree No. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take suitable measures to protect worker health), and on the Company under art. 25 septies, par. 3, of Legislative Decree No. 231/2001, in connection with an accident on 29 March 2012 at the Monfalcone shipyard involving an employee with an injury to the little finger on his left hand that healed in eight months.

• In June and July 2016, notices of conclusion of preliminary investigation were served on the former Monfalcone shipyard manager, under investigation for the offense of "bodily harm" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree No. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take suitable measures to protect worker health), and on the Company under art. 25 septies, par. 3, of Legislative Decree No. 231/2001, in connection with an accident on 25 August 2010 at the Monfalcone shipyard involving an employee of a contractor with a contusion to his left knee, which took more than forty days to heal.

• In June 2018, notifications were served of the conclusion of the preliminary investigations into the management and disposal of waste, involving many persons and companies, including the Company's Chief Executive Officer, the former manager and two employees of the Palermo shipyard for the offence referred to in art. 452-quaterdecies of the Criminal Code ("Illegal waste trafficking activities") and the Company for the offence referred to in art. 25-undecies, par. 2(f) Legislative Decree No. 231/2001 ("Environmental Offences"). By order of 23 April 2019, the Judge for Preliminary Investigations, in acceptance of the request made by the counsel of the Company's Chief Executive Officer, ordered the dismissal of the proceedings against Chief Executive Officer. The first level of the proceeding is underway.

• In September 2019, notices of conclusion of preliminary investigation were served on the hull pre-assembly foreman of the Monfalcone shipyard, under investigation for the offense of "bodily harm through negligence" under art. 590 of the Italian Criminal Code in relation to the violation of certain provisions of Legislative Decree No. 81/2008 and in general art. 2087 of the Italian Civil Code (failure to take suitable measures to protect worker health), and on the Company under art. 25 septies, par. 3, of Legislative Decree No. 231/2001, in connection with an accident on 3 February 2016 at the Monfalcone shipyard involving an employee with an arm fracture that healed in 83 days.

Tax position

National tax consolidation

FINCANTIERI S.p.A., Fincantieri Oil & Gas S.p.A. and Isotta Fraschini Motori S.p.A. take part in the national tax consolidation of Cassa Depositi e Prestiti S.p.A..

Audits and assessments

Fincantieri

The tax audit for 2013 was defined in 2019. In 2019, the Italian Revenue Service launched a number of investigative activities in relation to 2014; one of the assessment notices is the subject of adversarial proceedings and further defensive initiatives will be assessed, including in litigation. Appropriate provisions have been made.

Marine Interiors Cabins

With reference to the tax audit conducted by the Italian Revenue Service, Trieste office in 2017 on fiscal year 2015, the assessment notices received in 2018 have been appealed. The partially unsuccessful ruling was published in 2020 and the Company will appeal against it.
The same arguments were used by the Italian Revenue Service, Pordenone office, to adjust the value of the deed of transfer of the company branch for the purposes of the registration fee; the appeal against this action ended, at the first level, with a sentence in favour of the Subsidiary. The Italian Revenue Service appealed against this sentence in 2020.
The Norwegian tax authorities contested the VAT treatment of certain contracts with Vard Group in 2020. Defensive actions have been initiated and the consultants do not believe that the dispute will have significant effects on the Subsidiary.

Vard Tulcea

The subsidiary was subject to an audit by the Romanian tax authorities for the 2012-2016 years, which was concluded with an assessment notice; a defensive strategy is being pursued and appropriate provisions have been made.

Vard Braila

The subsidiary received news of an upcoming tax audit by the Romanian tax authorities for the tax periods 2014-2018.

Headcount

The Group's average workforce numbered 19,546 employees in 2019 (19,331 in 2018), distributed between the various contractual grades as follows:

(number)	2019	2018
Average number of employees:		
- Senior managers	381	357
- Middle managers	1,215	1,013
- White collars	7,297	6,758
- Blue collars	10,654	11,203
Total average number of employees	**19,546**	**19,331**

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

Grants and economic benefits received from government bodies

Under art. 1 paragraph 125 of Law no. 124 of 2017 the tables below give information on grants and other economic benefits received from Italian public entities during 2019:

GRANTS

Type	Grantor	Reason	Amount received (euro/000)
Non-repayable	MIT	Technological Leadership project/D.M. 10 JUNE 2015	748
Non-repayable	MIT	Agorà project/D.M. 10 JUNE 2015	745
Non-repayable	MIT	Virgin project/D.M. 10 JUNE 2015	740
Non-repayable	MIT	Polar project/D.M. 10 JUNE 2015	596
Non-repayable	MIT	Motor Yacht project/ D.M. 10 JUNE 2015	484
Non-repayable	MIT	Motor Yacht project/ D.M. 10 JUNE 2015	484
Non-repayable	MIT	XL project/ D.M. 10 JUNE 2015	626
Non-repayable	MISE	Project E01/0900/00/X 19/ Law 46/82	267
Non-repayable	MIUR	DLTM, FLUMARTURB project	41
Non-repayable	MISE	Superpanamax project	151
Non-repayable	FVG Region	POR FESR 2014-2020	87
Non-repayable	MIUR	PON01_02238 "Research and competitiveness" 2007-2013.	20
Non-repayable	FONDIMPRESA	Reimbursement of training courses	21
Non-repayable	INEA	SAFEMODE	202
Non-repayable	FVG Region	LESS	27
Non-repayable	FVG Region	PRELICA	116
Non-repayable	Liguria Region	Flood funds	64
Non-repayable	MISE	GAME project	239
Non-repayable	MIUR	SWAD project	99
Non-repayable	MIUR	C3isr project	66
Non-repayable	Valle d'Aosta Region	"PO FESR" Enterprise Development project	17
Capital	Gestore dei servizi energetici GSE S.p.A.	DM 16/02/2016 winter air conditioning system with heat pump	48

LOW COST FINANCING

Grantor	Reason	Subsidized interest rate %	Amount funded (euro/000)
MIUR	DLTM, FLUMARTURB project	0.5	87
MISE	GAME project subsidized loan	0.0	957
MIUR	SWAD project subsidized loan	0.5	102
MIUR	C3isr project subsidized loan	0.5	66

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

Donations and contributions

Under art. 1 paragraph 126 of Law no. 124 of 2017 the tables below give information on donations and contributions made by the Group during 2019:

Beneficiary	Reason	Amount paid (euro/000)
Contribution	PESCHIERE UNIVERSITY STUDENT ACCOMMODATION Foundation (GE) of the RUI Foundation	10
Contribution	FRIENDS OF THE HEART ASSOCIATION	20
Contribution	FINCANTIERI FOUNDATION	100
Contribution	ATLANTIC COUNCIL	26
Donation	HELPCODE	25
Donation	MUNICIPALITY OF MONFALCONE/School	50
Contribution	MUNICIPALITY OF MONFALCONE/GEOgrafie Festival	15
Contribution	"Fino a Prova Contraria" Association	10
Donation	Italian Red Cross Local Genoa Committee	28
Donation	Democratic Governors Assn	27
Donation	Norges Tekniske Naturvitenskapelige Universitet	10

NOTE 34 - CASH FLOWS FROM OPERATING ACTIVITIES

These are analyzed as follows:

(euro/000)

	31.12.2019	31.12.2018
Profit/(loss) for the year – Continuing operations	(123,911)	69,123
Depreciation and amortization	161,777	136,098
(Gains)/losses from disposal of property, plant and equipment	1,296	(3,202)
(Revaluation)/impairment of property, plant and equipment, intangible assets and equity investments	5,079	959
(Revaluation)/Impairment of working capital	3,946	
Increases/(releases) of provisions for risks and charges	63,937	48,914
Interest expenses capitalized		
Interest on employee benefits	1,363	903
Interest income	(15,664)	(7,946)
Interest expense	66,435	82,640
Income taxes	71,955	53,220
Long-term share-based incentive plan	5,073	4,844
Non-monetary operating income and expenses	19,118	
Impact of unrealized exchange rate changes	60	11,966
Finance income and costs from derivatives		
Gross cash flows from operating activities	**260,464**	**397,519**
CHANGES IN WORKING CAPITAL		
- inventories	58,906	(47,489)
- construction contracts and client advances	(494,193)	(359,700)
- trade receivables	94,104	161,421
- other current assets and liabilities	(39,981)	(79,157)
- other non-current assets and liabilities	4,373	(2,351)
- trade payables	396,950	101,515
- receivables for hedging instruments		
- payables for hedging instruments		
Cash flows from working capital	**280,623**	**171,758**
Dividends paid	(16,874)	(16,874)
Interest income received	10,373	7,268
Interest expense paid	(49,342)	(52,383)
Income taxes (paid)/collected	(61,550)	(8,799)
Utilization of provisions for risks and charges and for employee benefits	(118,723)	(59,288)
NET CASH FLOWS FROM OPERATING ACTIVITIES – Continuing operations	**44,507**	**41,682**
NET CASH FLOWS FROM OPERATING ACTIVITIES – Discontinued operations	**(22,265)**	
NET CASH FLOWS FROM OPERATING ACTIVITIES	**22,242**	**41,682**
- of which related parties	67,097	99,454

NOTE 35 - SEGMENT INFORMATION

Management has identified the following operating segments which reflect the model used to manage and control the business sectors in which the Group operates: Shipbuilding, Offshore and Specialized Vessels, Equipment, Systems and Services and Other Activities.

Shipbuilding: encompassing the business areas cruise ships and expedition cruise vessels, naval vessels, ferries and mega yachts.

Offshore and Specialized Vessels: encompassing the design and construction of high-end offshore support vessels, specialized ships, vessels for offshore wind farms and open ocean aquaculture, as well as the offer of innovative products in the field of drillships and semi-submersible drilling rigs.

Equipment, Systems and Services: encompassing the design and manufacture of high-tech equipment and systems, such as stabilization, propulsion, positioning and power generation systems, ship automation systems, steam turbines, integrated systems and ship accommodation, and the provision of repair and conversion services, logistical support and after-sales services, and supply of solutions for electronic systems and software and for infrastructure and maritime works.

Other activities primarily refer to the cost of corporate activities which have not been allocated to other operating segments.

A new organizational structure for the VARD Group was defined in 2018, with a focus on two business units, the Offshore and Specialized Vessels business unit and the Cruise business unit, and full organizational integration with FINCANTIERI S.p.A.

The economic results of VARD's Cruise business unit, coordinated directly by Fincantieri's Merchant Shipping Division, have been allocated to the Shipbuilding operating segment.

Project management for the construction of offshore vessels, specialized ships and vessels for the Norwegian Coast Guard have been merged into the VARD Offshore and Specialized Vessels business unit, whose economic results continue to be shown in the Offshore and Specialized Vessels.

The Group evaluates the performance of its operating segments and the allocation of financial resources on the basis of revenue and EBITDA. The latter is defined as Profit/(loss) for the year adjusted for the following items: (i) Income taxes, (ii) Share of profit/(loss) of investments accounted for using the equity method, (iii) Income/(expense) from investments, (iv) Finance costs, (v) Finance income, (vi) Depreciation, amortization and impairment, (vii) costs relating to reorganization plans and other non-recurring personnel costs, (viii) provisions for costs and legal expenses associated with lawsuits brought by employees for asbestos-related damages, (ix) other particularly material expenses or income outside the ordinary course of business arising from non-recurring events and (x) net profit or loss from discontinued operations.

The results of the operating segments at 31 December 2019 and 31 December 2018 are reported below.

(euro/000)

	2019				
	Shipbuilding	Offshore and Specialized Vessels	Equipment, Systems and Services	Other Activities	Group
Segment revenue	5,088,143	439,986	899,520	1,825	6,429,473
Intersegment elimination	(129,312)	(94,317)	(355,237)	(1,399)	(580,265)
Revenue (*)	4,958,831	345,669	544,282	426	5,849,208
EBITDA	375,258	(106,685)	89,904	(38,860)	319,617
EBITDA margin	7.4%	-24.2%	10%		5.5%
Depreciation, amortization and impairment					(166,603)
Finance income					52,599
Finance costs					(187,050)
Income/(expense) from investments					3
Share of profit/(loss) of investments accounted for using the equity method					(3,168)
Income taxes					(71,955)
Extraordinary and non-recurring income and expenses					(67,355)
Net profit/(loss) from discontinued operations					(24,329)
Profit/(loss) for the year					(148,241)

*Revenue: Sum of "Operating revenue" and "Other revenue and income" reported in the consolidated statement of comprehensive income.

Details of "Extraordinary and non-recurring income and expenses" gross of the tax effect (positive for euro 14,291 thousand) are presented in the following table.

(euro/000)

	2019
Costs relating to reorganization plans and other non-recurring personnel costs[1]	(8,816)
Provisions for costs and legal expenses associated with asbestos-related lawsuits[2]	(39,549)
Other extraordinary income and expenses[3]	(18,990)
Extraordinary and non-recurring income and expenses	**(67,355)**

[1] Of which euro 4.2 million included in "Personnel costs", euro 3.7 million in "Provisions" and euro 0.9 million in "Depreciation, amortization and impairment".
[2] Of which euro 4.6 million included in "Materials, services and other costs" and euro 35.0 million in "Provisions".
[3] Of which euro 13.4 million for legal expenses and euro 5.6 million for other extraordinary expenses included in the item "Sundry operating costs".

"Depreciation, amortization and impairment" includes euro 0.9 million of non-recurring costs included in the item "Costs relating to reorganization plans and other non-recurring personnel costs".

(euro/000)

	2018				
	Shipbuilding	Offshore and Specialized Vessels	Equipment, Systems and Services	Other Activities	Group
Segment revenue	4,678,234	680,980	650,846	1,905	6,011,965
Intersegment elimination	(394,811)	(126,896)	(15,757)	(481)	(537,945)
Revenue (*)	4,283,423	554,084	635,089	1,424	5,474,020
EBITDA	395,393	(19,978)	73,210	(34,992)	413,633
EBITDA margin	8.5%	-2.9%	11.2%		7.6%
Depreciation, amortization and impairment					(136,359)
Finance income					36,635
Finance costs					(140,566)
Income/(expense) from investments					2,246
Share of profit/(loss) of investments accounted for using the equity method					(2,905)
Income taxes					(53,220)
Extraordinary and non-recurring income and expenses					(50,344)
Net profit/(loss) from discontinued operations					-
Profit/(loss) for the year					69,120

*Revenue: Sum of "Operating revenue" and "Other revenue and income" reported in the consolidated statement of comprehensive income.

Details of "Extraordinary and non-recurring income and expenses" gross of the tax effect (positive for euro 11,844 thousand) are presented in the following table.

(euro/000)

	2018
Costs relating to reorganization plans and other non-recurring personnel costs[1]	(4,969)
Provisions for costs and legal expenses associated with asbestos-related lawsuits[2]	(37,432)
Proceeds from sale of shareholding in Camper & Nicholsons[3]	3,695
Other non-recurring income and expenses[4]	(11,638)
Extraordinary and non-recurring income and expenses	(50,344)

[1] Amount included in "Personnel costs".
[2] Of which euro 5.1 million included in "Materials, services and other costs" and euro 32.3 million in "Provisions".
[3] Amount included in "Income/(expense) from investments".
[4] This item includes other costs linked to non-recurring activities.

The following table shows a breakdown of Property, plant and equipment in Italy and other countries:

(euro/million)

	31.12.2019	31.12.2018
Italy	815	704
Other countries	410	374
Total Property, plant and equipment	**1,225**	**1,078**

Capital expenditure in 2019 on Intangible assets and Property, plant and equipment amounted to euro 279 million (euro 161 million in 2018), of which euro 235 million related to Italy (euro 122 million in 2018) and the remainder to other countries. The following table shows a breakdown of revenue and income between Italy and other countries, according to client country of residence:

(euro/million)

	31.12.2019		31.12.2018	
	Revenue and income	%	Revenue and income	%
Italy	1,059	18	1,004	18
Other countries	4,790	82	4,470	82
Total Revenue and income	**5,849**	**100**	**5,474**	**100**

The following table shows a breakdown of revenue and income according to country of production:

(euro/million)

	31.12.2019		31.12.2018	
	Revenue and income	%	Revenue and income	%
Italy	4,448	76	3,989	73
Norway	731	12	817	15
United States	581	10	467	9
Other	89	2	201	3
Total Revenue and income	**5,849**	**100**	**5,474**	**100**

The following table shows those clients whose revenue (defined as revenue plus change in inventories) accounted for more than 10% of the Group's revenue and income in each reporting period:

(euro/million)

	31.12.2019		31.12.2018	
	Revenue and income	%	Revenue and income	%
Client 1	1,451	25	1,562	29
Client 2	699	12	795	15
Total	**2,150**		**2,357**	

NOTE 36 - DISCONTINUED OPERATIONS

In October 2019, the Board of Directors of the subsidiary Vard Group AS approved the decision to leave the small vessel construction business for the fishery and aquaculture sectors and to proceed with the sale of the Aukra shipyard. Following that decision on 28 October 2019, Vard Group AS signed a letter of intent with a potential purchaser which envisages the completion of the sale by 2020. Pending completion of the sale transaction, the shipyard's activities were completed with the delivery of the last vessel in December 2019.

The gains and losses net of tax effects relating to this transaction have been classified as discontinued operations in profit and loss. Below are details of the profit and loss items at 31 December 2019 with the comparison at 31 December 2018:

(euro/000)

	2019	2018
Operating revenue	46,069	58,330
Other revenue and income	161	
Materials, services and other costs	(58,997)	(59,691)
Personnel costs	(8,869)	(5,643)
Depreciation, amortization and impairment	(1,644)	(813)
Provisions	(524)	249
Finance income		
Finance costs	(529)	(29)
Income/(expense) from investments	4	
Share of profit/(loss) of investments accounted for using the equity method		
Income taxes		1,671
PROFIT/(LOSS) FOR THE YEAR	**(24,329)**	**(5,926)**

The carrying amount of assets and liabilities held for sale is detailed below:

(euro/000)

	2019
Non-current assets	6,141
Current assets	
TOTAL ASSETS	**6,141**
Non-current liabilities	
Current liabilities	
TOTAL LIABILITIES	**-**

NOTE 37 - ACQUISITION OF THE INSIS GROUP

Description of the operation

On 4 July 2019, FINCANTIERI S.p.A. completed the acquisition of a 60% stake in the INSIS group, a solution provider in the field of physically and logically integrated security, operating in domestic and foreign markets both directly and as a technology partner of large industrial groups. The purchase price of the investment was euro 23 million, which is the result of the purchase of shares from the shareholders of the parent company and an increase in Share Capital with a share premium subscribed on the same date. The agreement also provides that Fincantieri may exercise a call option on the remaining 40% and the minority shareholder may exercise a put option on the same stake.

Accounting for the acquisition

The following table shows the total consideration, the fair value of the assets acquired, the liabilities assumed and the evidence of goodwill arising from the acquisition.

(euro/000)

Consideration paid for the purchase of shares from shareholders	17,400
Consideration paid for Share Capital increase with share premium	6,000
(a) Total consideration	**23,400**
Fair value of assets acquired and liabilities assumed	
Intangible assets	27,495
Plant and machinery	4,678
Investments	82
Other non-current assets	84
Trade receivables and other current assets	35,080
Inventories	4,632
Work in progress net of installment invoices	1,603
Cash and cash equivalents	10,222
Provisions for risks and charges	(1,744)
Trade payables and other current liabilities	(30,340)
Deferred taxes	(5,427)
Non-current financial liabilities	(3,702)
Current financial liabilities	(8,318)
Total	**34,345**
Non-controlling interests	(662)
(b) Total net assets acquired	**33,683**
(c) Equity share = (b) x 60%	20,209
Goodwill = (a-c)	**3,191**

The consideration paid for 60% of the Group amounts to euro 23.4 million, which is equivalent to a valuation of euro 39 million for 100% of the Group against group equity at the acquisition date of euro 20.1 million.
The difference, between the value of 100% of the Insis Group and the Equity at the acquisition date of euro 18.9 million, was allocated to the Order Backlog and Client Relationships intangible assets and the remainder to goodwill.
The value of the Order Backlog, valued using an income method, was estimated at euro 2.6 million, to be amortized over 3 years, while the value of the Client Relationships, valued using the Multiperiod excess earnings method, was estimated at euro 16.3 million, to be amortized over 10 years. The residual goodwill after the recognition of deferred tax liabilities (euro 5.3 million) amounts to euro 5.3 million. The share of goodwill recognized in these financial statements amounts to euro 3.2 million, or 60% of the amount calculated.
In relation to the written put option granted to minority shareholders, a financial liability of euro 30,977 thousand has been recorded against a negative reserve in Group's shareholders' equity.
If the INSIS Group had been consolidated as of 1 January 2019, it is estimated that it would have contributed euro 19 million to the Group's consolidated revenues without a material impact on the Group's results for the year.

NOTE 38 - EVENTS AFTER 31 DECEMBER 2019

The first meeting of the Board of Directors of Naviris, the joint venture between Fincantieri and Naval Group, was held on 14 January 2020. This partnership consolidates the two companies' shared desire to build a future of excellence for the shipbuilding industry and Navies. Giuseppe Bono was assigned the Chairmanship and Hervé Guillou is a member of the Board of Directors. During the Franco-Italian summit in Naples on 27 February 2020, an intergovernmental agreement was signed, reaffirming the France's and Italy's full support for the joint venture of Naval Group and Fincantieri. This agreement makes the long-term alliance initiated by the two industrial groups fully operational.
On 24 January 2020, Fincantieri and the Qatari Ministry of Defence, through Barzan Holdings, a company 100% owned by the Qatari Ministry of Defence, signed a Memorandum of Understanding (MoU) in Doha aimed at strengthening the strategic partnership through the evaluation and study of new technologies and capabilities, which could lead to the future acquisition of new units as early as 2020.
On 24 February 2020, Marakeb Technologies, a leading automation solutions provider, and Fincantieri signed a Memorandum of Understanding to explore opportunities for collaboration in automation at international level.
On 6 March 2020, Cassa Depositi e Prestiti, Eni and Fincantieri, confirming their common commitment to the transition towards decarbonization and environmental sustainability, signed a Memorandum of Understanding to develop joint projects within the circular economy, aimed at identifying and implementing technological solutions to deal with marine litter, in a mutually reinforcing way, which compromises the marine and coastal ecosystem mainly due to floating plastic waste and microplastics. The agreement was signed with the aim of studying and developing technologies for the collection of waste dispersed at sea and along the coast and then use them to generate mobility products and industrial applications.
On 10 March 2020, Fincantieri Infrastructure raised the new 100-meter maxi steel deck. The deck, whose profile will recall the hull of a ship, as designed by Renzo Piano was transported across the Polcevera river. In the second half of the month, the last 100-meter maxi deck was also raised, taking the new Genoa bridge over the railway.
After the end of the financial year, and in the first months of 2020, the COVID-19 pandemic emergency occurred at a global level, resulting in strong pressure on national health systems and the progressive enactment by government authorities of a series of measures aimed at containing the risk of further expansion of the virus. These measures are having significant effects on the social and working lives of individuals and on the world economy.
The Group reacted promptly to this pandemic, activating certain initiatives to pursue its priority objectives of protecting the health of its employees and those of the companies in the industry; in fact, the Group's priority at this time is to implement all the necessary initiatives to safeguard the health and well-being of its people, who represent its most important asset. In this context, Fincantieri has currently suspended production activities at Italian shipyards as of 16 March 2020. The Group is in any case actively involved in daily monitoring of the evolution of the spread of the virus, in order to ensure proactive management of its potential effects.
At the same time, as far as production activities are concerned, despite the mitigating actions already promptly implemented by the Company, including the purchase of medical devices for the regular performance of the Company's operations, the COVID-19 emergency is having significant effects on the regular and ordinary performance of the Group's activities in 2020. In particular, the pandemic, also taking into account its global scope, may have an impact mainly on the following areas of the Group's activities:

- Production schedules
- Supply chain, in terms of availability of resources, delivery times, financial situation of the supplier network
- Personnel, in terms of production efficiency, availability of resources, logistics and insurance needs
- Plan of investments
- Commercial negotiations

At a global level, one of the sectors most affected by the current emergency situation is tourism, with particular attention to the cruise market where shipowners were among the first to be forced to stop their operations. In this context, the Group's priority and commitment are focused on care of customers and strategic partners in order to protect the order backlog a fundamental element not only for Fincantieri and for the supplier network system, but also in the context of the recovery of the national economy. It should be noted that the current health emergency is a cause of force majeure within the scope of the contracts, allowing the Group to modify the production schedules and delivery dates of the ships.
Should the situation be resolved within a reasonable time frame, Fincantieri believes that the Group's equity and economic structure is able to cope with the effects of the emergency.

On 26 March 2020, Fincantieri, while taking all the necessary actions to make its employees safe, decided to continue the suspension of work at its plants and offices until the date indicated in the Decree of the President of the Council of Ministers of March 22. Therefore, Fincantieri and the national trade unions FIM - FIOM - UILM, have signed an agreement that provides for the possibility of using the Ordinary Wage Guarantee Fund (CIGO) for personnel at all company sites. During the period covered by CIGO, maintenance activities of the plants and essential services of the sites are still carried out, as are the direction and management activities strictly necessary for the current obligations of the company, where possible using smart working, and in order to carry out the preparatory activities for resumption of production.

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate		Share capital	% interest held		% consolidated by Group
Subsidiaries consolidated line-by-line							
BACINI DI PALERMO S.p.A. Dry-dock management	Palermo	Italy	EUR	**1,032,000.00**	100.00	Fincantieri S.p.A.	100.00
CENTRO PER GLI STUDI DI TECNICA NAVALE CETENA S.p.A. Ship research and experimentation	Genoa	Italy	EUR	**1,000,000.00**	71.10 15.00	Fincantieri S.p.A. Seaf S.p.A.	86.10
FINCANTIERI OIL & GAS S.p.A. Holding company	Trieste	Italy	EUR	**21,000,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI HOLDING B.V. Holding company for foreign investments	Netherlands	Netherlands	EUR	**9,529,384.54**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI MARINE SYSTEMS NORTH AMERICA Inc. Sale and after-sale services relating to mechanical products	USA	USA	USD	**501,000.00**	100.00	Fincantieri Holding B.V.	100.00
FMSNA YK Servicing and sale of spare parts	Japan	Japan	JPY	**3,000,000.00**	100.00	Fincantieri Marine Systems North America Inc.	100.00
GESTIONE BACINI LA SPEZIA S.p.A. Dry-dock management	Muggiano (La Spezia, Italy)	Italy	EUR	**260,000.00**	99.89	Fincantieri S.p.A.	99.89
ISOTTA FRASCHINI MOTORI S.p.A. Design, construction, sale and after-sale services relating to fast medium- duty diesel engines	Bari	Italy	EUR	**3,300,000.00**	100.00	Fincantieri S.p.A.	100.00
SOCIETÀ PER L'ESERCIZIO DI ATTIVITÀ FINANZIARIE SEAF S.p.A. Financial support for Group companies	Trieste	Italy	EUR	**6,562,000.00**	100.00	Fincantieri S.p.A.	100.00
BOP6 S.c.a.r.l. Electrical installation	Trieste	Italy France	EUR	**40,000.00**	5.00 95.00	Fincantieri S.p.A. Fincantieri SI S.p.A.	100.00
ISSEL NORD S.r.l. Logistics engineering	Follo (La Spezia, Italy)	Italy	EUR	**400,000.00**	100.00	Fincantieri S.p.A.	100.00
SEASTEMA S.p.A. Design and development of integrated automation systems	Genoa	Italy	EUR	**300,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI AUSTRALIA Pty Ltd. Shipbuilding support activities	Australia	Australia	AUD	**2,400,100.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI SERVICES MIDDLE EAST LLC Project management services	Qatar	Qatar	EUR	**200,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI USA Inc. Holding company	USA	USA	USD	**1,029.75**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI SERVICES USA LLC After-sales services	USA	USA	USD	**300,001.00**	100.00	Fincantieri USA Inc.	100.00

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate		Share capital	% interest held		% consolidated by Group
FINCANTIERI MARINE GROUP HOLDINGS Inc. Holding company	USA	USA	USD	**1,027.97**	87.44	Fincantieri USA Inc.	87.44
FINCANTIERI MARINE GROUP LLC Ship building and repair	USA	USA	USD	**1,000.00**	100.00	Fincantieri Marine Group Holdings Inc.	87.44
MARINETTE MARINE CORPORATION Ship building and repair	USA	USA	USD	**146,706.00**	100.00	Fincantieri Marine Group LLC	87.44
ACE MARINE LLC Building of small aluminium ships	USA	USA	USD	**1,000.00**	100.00	Fincantieri Marine Group LLC	87.44
FINCANTIERI DO BRASIL PARTICIPAÇÕES SA Holding company	Brazil	Brazil	BRL	**1,310,000.00**	80.00 20.00	Fincantieri S.p.A. Fincantieri Holding B.V.	100.00
FINCANTIERI INDIA Pte. Ltd. Design, technical support and marketing	India	India	INR	**10,500,000.00**	99.00 1.00	Fincantieri Holding B.V. Fincantieri S.p.A.	100.00
MARINE INTERIORS CABINS S.p.A. Ship interiors	Trieste	Italy, Romania, Norway	EUR	**5,120,000.00**	100.00	Seaf S.p.A.	100.00
LUXURY INTERIORS FACTORY S.r.l. Ship interiors	Napoli	Italy	EUR	**50,000.00**	100.00	Marine Interiors Cabins S.p.A.	100.00
MARINE INTERIORS S.p.A. Ship interiors	Trieste	Italy, Romania, Norway	EUR	**1,000,000.00**	100.00	Marine Interiors Cabins S.p.A.	100.00
MI S.p.A. Dormant	Trieste	Italy	EUR	**50,000.00**	100.00	Seaf S.p.A.	100.00
SEAENERGY A MARINE INTERIORS COMPANY S.r.l. Manufacture of furniture	Pordenone	Italy	EUR	**50,000.00**	85.00	Marine Interiors S.p.A.	85.00
FINCANTIERI SI S.p.A. Electric, electronic and electromechanical industrial solutions	Trieste	Italy, France	EUR	**500,000.00**	100.00	Seaf S.p.A.	100.00
FINCANTIERI INFRASTRUCTURE S.p.A. Carpentry	Trieste	Italy, Romania	EUR	**500,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI INFRASTRUCTURE OPERE MARITTIME S.p.A. Dormant	Trieste	Italy	EUR	**100,000.00**	100.00	Fincantieri Infrastructure S.p.A	100.00
FINCANTIERI SWEDEN AB Sale, maintenance and after-sales service for a series of systems, equipment and related activities	Sweden	Sweden	SEK	**5,000,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI (SHANGHAI) TRADING Co. Ltd. Engineering design, consulting and development	China	China	RMB	**3,500,000.00**	100.00	Fincantieri S.p.A.	100.00
FINCANTIERI EUROPE S.p.A. Holding company	Trieste	Italy	EUR	**50,000.00**	100.00	Fincantieri S.p.A.	100.00
INSIS S.p.A. Automation systems	Milan	Italy	EUR	**10,791,563.00**	55.50	Fincantieri S.p.A.	60.00
REICOM S.r.l. Design and engineering	Milan	Italy	EUR	**600,000.00**	100.00	Insis S.p.A.	60.00

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate		Share capital	% interest held	% consolidated by Group	
S.E.C. SÉCURITÉ DES ENVIRONNEMENTS COMPLEXES Design and engineering	Milan	Italy	EUR	10,000.00	100.00	Insis S.p.A.	60.00
C.S.I. CONSORZIO STABILE IMPIANTI S.r.l. Installation of systems	Milan	Italy	EUR	40,000.00	75.65	Insis S.p.A.	45.39
HMS IT S.p.A. Design and engineering	Rome	Italy	EUR	1,500,000.00	60.00	Insis S.p.A.	36.00
ESSETI SISTEMI E TECNOLOGIE S.r.l. ICT consulting and services	Milan	Italy	EUR	100,000.00	51.00	Insis S.p.A.	30.60
MARINA BAY S.A. Dormant	Luxembourg	Luxembourg	EUR	31,000.00	100.00	Insis S.p.A.	60.00
FINCANTIERI DRAGAGGI ECOLOGICI S.p.A. Construction of hydraulic works	Rome	Italy	EUR	500,000.00	55.00	Fincantieri S.p.A.	55.00
VARD HOLDINGS Ltd. Holding company	Singapore	Singapore	SGD	932,200,000.00	98.22	Fincantieri Oil & Gas S.p.A.	98.22
VARD GROUP AS Shipbuilding	Norway	Norway	NOK	26,795,600.00	100.00	Vard Holdings Ltd.	98.22
VARD SHIPHOLDING SINGAPORE Pte. Ltd. Charter of boats, ships and barges	Singapore	Singapore	USD	1.00	100.00	Vard Holdings Ltd.	98.22
VARD ELECTRO AS Electrical/automation installation	Norway	Norway, UK	NOK	1,000,000.00	100.00	Vard Group AS	98.22
VARD ELECTRO ITALY S.r.l. Installation, production, sale and assistance for electrical equipment and parts	Genoa	Italy	EUR	200,000.00	100.00	Vard Electro AS	98.22
VARD RO HOLDING S.r.l. Holding company	Romania	Romania	RON	82,573,830.00	100.00	Vard Group AS	98.22
VARD NITERÓI Ltda. Dormant	Brazil	Brazil	BRL	354,883,790.00	99.99 0.01	Vard Group AS Vard Electro Brazil Ltda.	98.22
VARD PROMAR SA Shipbuilding	Brazil	Brazil	BRL	1,109,108,180.00	100.00	Vard Group AS	98.22
VARD INFRAESTRUTURA Ltda. Dormant	Brazil	Brazil	BRL	10,000.00	99.99 0.01	Vard Promar SA Vard Group AS	98.22
ESTALEIRO QUISSAMÃ Ltda. Dormant	Brazil	Brazil	BRL	400,000.00	50.50	Vard Group AS	49.60
VARD SINGAPORE Pte. Ltd. Sales and holding company	Singapore	Singapore	SGD	6,000,000.00	100.00	Vard Group AS	98.22
VARD DESIGN AS Design and engineering	Norway	Norway	NOK	4,000,000.00	100.00	Vard Group AS	98.22
VARD ACCOMMODATION AS Accommodation installation	Norway	Norway	NOK	500,000.00	100.00	Vard Group AS	98.22
VARD PIPING AS Pipe installation	Norway	Norway	NOK	100,000.00	100.00	Vard Group AS	98.22
SEAONICS AS Offshore handling systems	Norway	Norway	NOK	46,639,721.00	56.40	Vard Group AS	55.40

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate		Share capital	% interest held	% consolidated by Group	
VARD SEAONICS HOLDING AS Dormant	Norway	Norway	NOK	30,000.00	100.00	Vard Group AS	98.22
SEAONICS POLSKA SP. Z O.O. Engineering services	Poland	Poland	PLN	400,000.00	100.00	Seaonics AS	55.40
VARD DESIGN LIBURNA Ltd. Design and engineering	Croatia	Croatia	HRK	20,000.00	51.00	Vard Design AS	50.09
VARD ELECTRO TULCEA S.r.l. Electrical installation	Romania	Romania	RON	4,149,525.00	99.96	Vard Electro AS	98.18
VARD ELECTRO BRAZIL (INSTALAÇÕES ELETRICAS) Ltda. Electrical installation	Brazil	Brazil	BRL	3,000,000.00	99.00 1.00	Vard Electro AS Vard Group AS	98.22
VARD ELECTRO BRAILA S.r.l. Electrical installation	Romania	Romania	RON	45,000.00	100.00	Vard Electro AS	98.22
VARD ELECTRICAL INSTALLATION AND ENGINEERING (INDIA) Pvt. Ltd. Electrical installation	India	India	INR	14,000,000.00	99.50 0.50	Vard Electro AS Vard Electro Tulcea S.r.l.	98.22
VARD TULCEA SA Shipbuilding	Romania	Romania	RON	151,606,459.00	99.996 0.004	Vard RO Holding S.r.l. Vard Group AS	98.22
VARD BRAILA SA Shipbuilding	Romania	Romania, Italy	RON	165,862,177.50	94.12 5.88	Vard RO Holding S.r.l. Vard Group AS	98.22
VARD ENGINEERING CONSTANTA S.r.l. Engineering	Romania	Romania	RON	1,408,000.00	70.00 30.00	Vard RO Holding S.r.l. Vard Braila S.A.	98.22
VARD VUNG TAU Ltd. Shipbuilding	Vietnam	Vietnam	USD	8,000,000.00	100.00	Vard Singapore Pte. Ltd.	98.22
VARD ACCOMMODATION TULCEA S.r.l. Accommodation installation	Romania	Romania	RON	436,000.00	99.77 0.23	Vard Accomodation AS Vard Electro Tulcea S.r.l.	98.22
VARD ENGINEERING BREVIK AS Design and engineering	Norway	Norway	NOK	105,000.00	100.00	Vard Group AS	98.22
VARD OFFSHORE BREVIK AS Offshore industrial services and installation	Norway	Norway	NOK	100,000.00	100.00	Vard Group AS	98.22
VARD MARINE INC. Design and engineering	Canada	Canada	CAD	9,783,700.00	100.00	Vard Group AS	98.22
VARD MARINE US INC. Design and engineering	USA	USA	USD	1,010,000.00	100.00	Vard Marine Inc.	98.22
VARD ENGINEERING GDANSK Sp. Z.o.o. Offshore design and engineering activities	Poland	Poland	PLN	50,000.00	100.00	Vard Engineering Brevik AS	98.22
VBD1 AS Dormant	Norway	Norway	NOK	500,000.00	100.00	Vard Group AS	98.22
VBD2 AS Management of own ships	Norway	Norway	NOK	30,000.00	100.00	Vard Group AS	98.22
VARD CONTRACTING AS Dormant	Norway	Norway	NOK	30,000.00	100.00	Vard Group AS	98.22
CDP TECHNOLOGIES AS Research and development of technology	Norway	Norway	NOK	500,000.00	100.00	Seaonics AS	55.40
CDP TECHNOLOGIES ESTONIA OÜ Automation and control system software	Estonia	Estonia	EUR	5,200.00	100.00	CDP Technologies AS	55.40
VARD ELECTRO CANADA Inc. Installation and integration of electrical systems	Canada	Canada	CAD	100,000.00	100.00	Vard Electro AS	98.22
VARD AQUA SUNNDAL AS Supplier of aquaculture equipment	Norway	Norway	NOK	1,100,000.00	100.00	Vard Group AS	98.22
VARD AQUA CHILE SA Supplier of aquaculture equipment	Chile	Chile	CLP	106,000,000.00	95.00	Vard Aqua Sunndal AS	93.31
VARD AQUA SCOTLAND Ltd Supplier of aquaculture equipment	UK	UK	GBP	10,000.00	100.00	Vard Aqua Sunndal AS	98.22

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate	Share capital		% interest held		% consolidated by Group
Joint ventures consolidated using the equity method							
ORIZZONTE SISTEMI NAVALI S.p.A. Management of large naval vessel contracts	Genoa	Italy, Algeria	EUR	20,000,000.00	51.00	Fincantieri S.p.A.	51.00
ETIHAD SHIP BUILDING LLC Design, production and sale of civilian and naval ships	Arab Emirates	Arab Emirates	AED	2,500,000.00	35.00	Fincantieri S.p.A.	35.00
CSSC - FINCANTIERI CRUISE INDUSTRY DEVELOPMENT LIMITED Design and marketing of cruise ships	Hong Kong	Hong Kong	EUR	140,000,000.00	40.00	Fincantieri S.p.A.	40.00
ISSEL MIDDLE EAST INFORMATION TECHNOLOGY CONSULTANCY LLC IT consultancy and Oil & Gas services	Arab Emirates	Arab Emirates	AED	150,000.00	49.00	Issel Nord S.r.l.	49.00
CSSC - FINCANTIERI (SHANGAI) CRUISE DESIGN LIMITED Engineering, Project Management and Supply Chain Management	Hong Kong	Hong Kong	RMB	1,000,000.00	100.00	CSSC - Fincantieri Cruise Industry Development Limited	40.00
BUSBAR4F S.c.a.r.l. Installation of electrical systems	Trieste	Italy, France	EUR	40,000.00	10.00 50.00	Fincantieri S.p.A. Fincantieri SI S.p.A.	60.00
FINCANTIERI CLEA BUILDINGS S.c.a.r.l. Contract management and execution	Verona	Italy	EUR	10,000.00	51.00	Fincantieri Infrastructure S.p.A.	51.00
PERGENOVA S.c.p.a. Construction of bridge in Genoa	Genoa	Italy	EUR	1,000,000,00	50.00	Fincantieri Infrastructure S.p.A.	50.00
CONSORZIO F.S.B. Construction	Venice	Italy	EUR	15,000.00	58.36	Fincantieri S.p.A.	58.36

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS

COMPANIES INCLUDED IN THE SCOPE OF CONSOLIDATION

Principal activity	Registered office	Countries in which they operate	Share capital		% interest held		% consolidated by Group
Associates consolidated using the equity method							
CASTOR DRILLING SOLUTION AS Offshore drilling technology	Norway	Norway	NOK	229,710.00	34.13	Seaonics AS	18.91
OLYMPIC CHALLENGER KS Shipowner	Norway	Norway	NOK	84,000,000.00	35.00	Vard Group AS	34.38
BREVIK TECHNOLOGY AS Holding of technology licenses and patents	Norway	Norway	NOK	1,050,000.00	34.00	Vard Group AS	33.39
MOKSTER SUPPLY AS Shipowner	Norway	Norway	NOK	13,296,000.00	40.00	Vard Group AS	39.29
MOKSTER SUPPLY KS Shipowner	Norway	Norway	NOK	131,950,000.00	36.00	Vard Group AS	35.36
REM SUPPLY AS Shipowner	Norway	Norway	NOK	345,003,000.00	26.66	Vard Group AS	26.19
OLYMPIC GREEN ENERGY KS Shipowner	Norway	Norway	NOK	4,841,028.00	29.50	Vard Group AS	28.97
DOF ICEMAN AS Shipowner	Norway	Norway	NOK	23,600,000.00	50.00	Vard Group AS	49.11
TAKLIFT AS Floating cranes	Norway	Norway	NOK	2,450,000.00	25.47	Vard Group AS	25.02
AS DAMECO Maintenance services	Norway	Norway	NOK	606,000.00	34.00	Vard Offshore Brevik AS	33.39
CSS DESIGN LIMITED Design and engineering	British Virgin Islands	British Virgin Islands	GBP	100.00	31.00	Vard Marine Inc.	30.45
ARSENAL S.r.l. IT consulting	Trieste	Italy	EUR	16,421.05	24.00	Fincantieri Oil & Gas S.p.A.	24.00
ISLAND DILIGENCE AS Shipowner	Norway	Norway	NOK	17,012,500.00	39.38	Vard Group AS	38.68
UNIFER NAVALE S.r.l. Piping	Finale Emilia (Modena)	Italy	EUR	150,000.00	20.00	Seaf S.p.A.	20.00
CENTRO SERVIZI NAVALI S.p.A. Steel-working	San Giorgio di Nogaro (Udine)	Italy	EUR	12,782,000.00	10.93	Fincantieri S.p.A.	10.93
GRUPPO PSC S.p.A. Shipbuilding and systems	Maratea (Potenza)	Norway, Qatar, Romania, Colombia	EUR	1,431,112.00	10.00	Fincantieri S.p.A.	10.00
DECOMAR S.p.A. Eco-dredging	Massa	Italy	EUR	2,500.00	20.00	Fincantieri S.p.A.	20.00
PRELIOS SOLUTIONS & TECHNOLOGIES S.r.l. Engineering	Milan	Italy	EUR	50,000.00	49.00	Insis S.p.A.	29.40
LEONARDO SISTEMI INTEGRATI S.r.l. Engineering	Genoa	Italy	EUR	65,000.00	14.58	Insis S.p.A.	8.75
MC4COM - MISSION CRITICAL FOR COMMUNICATIONS S.c.a.r.l. Engineering	Milan	Italy	EUR	10,000.00	50.00	HMS IT S.p.A.	18.00

MANAGEMENT REPRESENTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Management representation on the consolidated financial statements pursuant to art. 154-*bis*, par. 5 of italian legislative decree 58/1998 (italy's consolidated law on finance)

1. The undersigned Giuseppe Bono, in his capacity as Chief Executive Officer, and Felice Bonavolontà, as Manager Responsible for Preparing Financial Reports of FINCANTIERI S.p.A. ("Fincantieri"), with reference to the requirements of art. 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 dated 24 February 1998, hereby represent:

- the suitability in relation to the business's organization and,
- the effective application

of the administrative and accounting processes for the preparation of the consolidated financial statements during financial year 2019.

2. The suitability of the administrative and accounting processes for preparing the consolidated financial statements at 31 December 2019 has been evaluated on the basis of a procedure established by Fincantieri in compliance with the Internal Control - Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission, which is the generally accepted standard model internationally.

3. The undersigned also represent that:

3.1 the consolidated financial statements:

a) have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002;

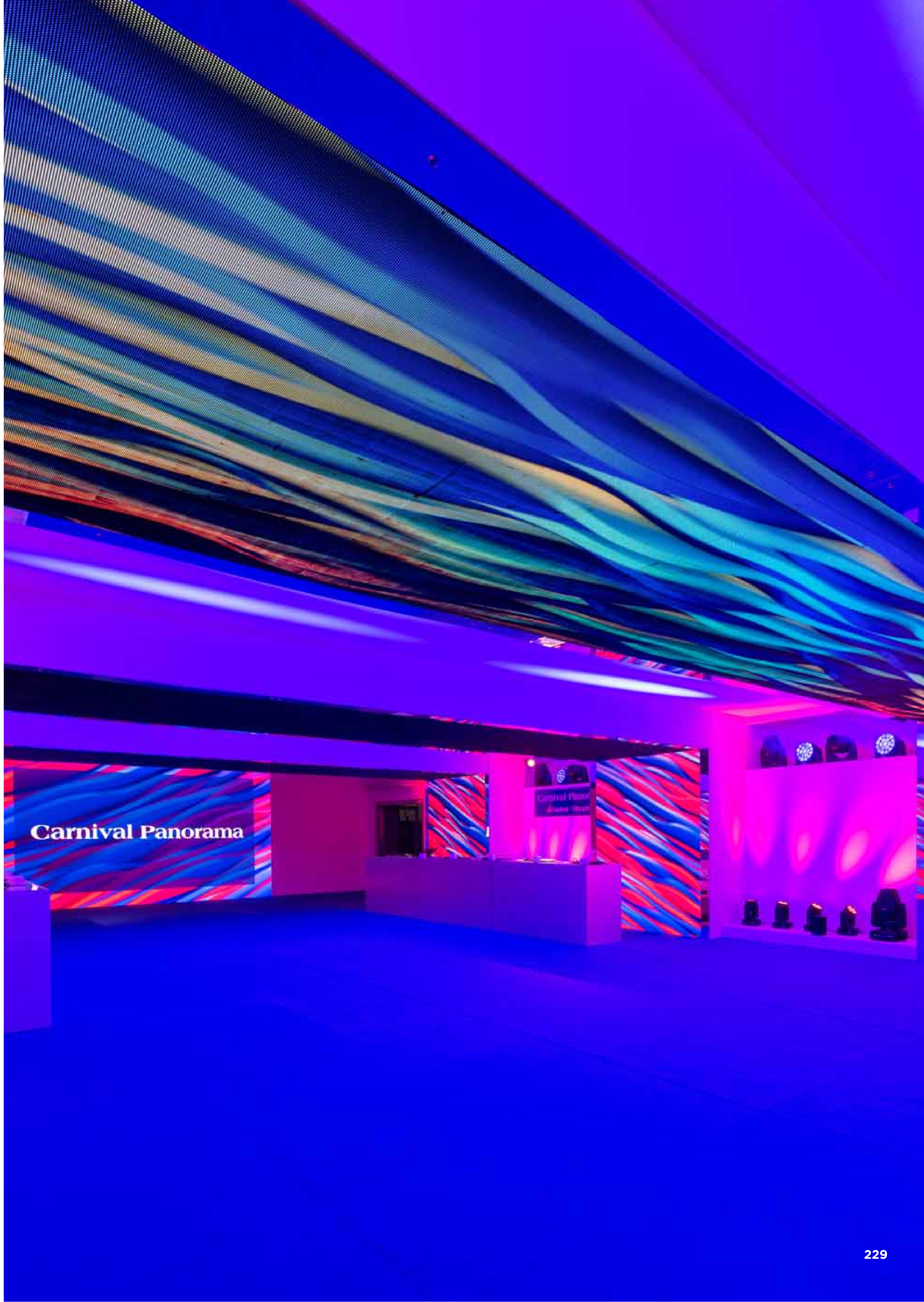
b) correspond to the underlying accounting records and books of account;

c) are able to give a true and fair view of the assets, liabilities, financial position and results of operations of the issuer and the group of companies included in the consolidation..

3.2 The Report on Operations includes a fair review of operating performance and results, as well as the situation of the issuer and of all the companies included in the consolidation area, together with a description of the principal risks and uncertainties to which they are exposed.

1 April 2020

CHIEF EXECUTIVE OFFICER	MANAGER RESPONSIBLE FOR PREPARING FINANCIAL REPORTS
Giuseppe Bono	*Felice Bonavolontà*



REPORT BY THE INDEPENDENT AUDITORS

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Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Fincantieri SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Fincantieri Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Fincantieri SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Valuation of construction contracts *Refer to notes No 3 "Accounting policies (point 7 – construction contracts)", No 14 "Construction contracts – assets", No 20 "Provisions for risks and charges", No 24 "Construction contracts – liabilities" to the consolidated financial statements*	
In the consolidated financial statements as at 31 December 2019, the Fincantieri Group recorded assets for construction contracts amounting to Euro 2.697.714 thousand (representing 37% of total assets) and liabilities for construction contracts amounting to Euro 1.282.713 thousand (representing 18% of total liabilities and net equity). The value of the construction contracts is determined with the percentage of completion method by comparing the contract costs incurred for work performed at the reporting date with the estimated total costs for each contract. If it is expected that the completion of a contract may give rise to a loss, this is recognized in full in the period in which it becomes reasonably foreseeable. The forecast of total costs requires a high level of management judgement and an error in this stage could lead to a wrong valuation of the construction contracts (and consequently of operating revenue) that could be significant. Furthermore, due to the complexity of the contracts and to the long time required to complete the construction of the vessels, it is possible that management may not correctly estimate the probability and the magnitude of future events that could have an impact on the valuation of the contract costs, of the provision for future losses and/or on the evaluation of the guarantee provision.	We performed an understanding and evaluation of the internal control system with reference to the construction contracts. We identified and tested the relevant controls. For each naval construction contract we obtained and examined the contract (and their amendments and modifications agreed with the client, if any) and verified that the total revenues were in accordance with the contracts. For the construction contracts expressed in foreign currencies, we checked the conversion of the price to Euro. For each construction contract we performed comparative analysis by comparing the budget of the full life costs with the one for sister vessels and with the budgets obtained in past audits, in order to verify significant fluctuations. We had discussions with the Project Managers and with the management control team in order to understand main fluctuations and evaluate the reasonableness of the budgets and their updates. We analysed and verified the process of attribution of the costs incurred to the related construction contract and we checked the balance between general accounting and industrial accounting for some randomly selected yards.

The correct measurement of the stage of completion of the construction contracts and of the possible related liabilities represents a key audit matter due to the magnitude of the amounts involved and due to the high level of management judgement.	We performed substantive procedures in order to test the correct attribution of the costs to the related construction contract. We verified the percentage of completion computed by comparing the costs incurred at the reporting date with the estimated full life costs. We performed substantive procedures on the closing of the accounting for the constructions delivered during the financial year, on the reasonableness of the provision for estimated future losses and of the guarantee provision. We evaluated the impact of claims from customers, if any.
Recoverability of goodwill *Refer to notes No 3 "Accounting policies (point 1.1 – goodwill)" and No 6 "Intangible assets" to the consolidated financial statements* In its consolidated financial statements as at 31 December 2019, Fincantieri SpA recognized goodwill amounting to Euro 260.802 thousand (representing 3,6% of total assets), out of which Euro 60.104 thousand allocated to the cash generating unit ("CGU") "VARD Offshore and Specialized vessels", Euro 126.736 thousand allocated to the CGU "VARD Cruise" and Euro 70.771 thousand allocated to the CGU "FMG Group", and Euro 3.191 thousand generated in the year as a result of a business combination. The two CGUs "VARD Offshore and Specialized vessels" and "VARD Cruise" have been identified starting from 2018 following a reorganization of the group controlled by the company Vard Holdings Limited ("VARD Group"), historically involved in the sector of design and construction of offshore means of support for the extraction and production of petroleum and natural gas and for the industry of oil services. This reorganization is the outcome of the business diversification process undertaken by the VARD Group in the last few years to cope with the decline in demand of Offshore vessels. The CGU "FMG Group" refers to the US group controlled by Fincantieri Marine Group LLC, involved in the construction of middle size vessels in the US for civil clients and government agencies, including the US Navy and the US Coast Guard. The Company at least annually performs an impairment test for each CGU. This impairment test is based on the estimation of the value in use of each CGU determined with the discounted cash flow method. For the computation the Company used the cash flows derived from the 2020-2024 Business Plans prepared by the FMG Group and VARD Group management. Furthermore, the drop in oil prices and the crisis of the offshore industry impacted the profitability of the VARD Group which closed the 2019 financial year (and previous years) with non positive results. The results of the impairment tests have been subjected by the management to sensitivity analysis to ascertain whether reasonable changes in the parameters could lead to an impairment. We focused on this aspect as the amount of goodwill recognised in the financial statements is significant and because the management's valuation of the recoverable amount of each CGU implies a high degree of judgement in the estimate of the expected cash flows, in particular, as well as in the definition of the discount rates applied.	We performed an understanding and evaluation of the method adopted by the management to develop the impairment test applied for each CGU. We examined the 2020-2024 Business Plans projections prepared by the management of the FMG Group and the VARD Group and we held discussions and interviews with the company management to understand and critically analyse the assumptions used. We compared the 2019 budget, used in the impairment test of last year, with the actual figures as at 31 December 2019 in order to identify significant differences and corroborate the appropriateness of the planning process adopted by the management. We verified the accuracy of the impairment test model used by the management through an independent recalculation and by comparing the results obtained. We recalculated the discount rates applied by the management for each CGU and the long-term growth rate, also with the support of experts from the PwC network. We performed sensitivity tests (and we analysed those performed by the management) to ascertain whether changes in the discount and growth rates could lead to an impairment. We verified the completeness and accuracy of the disclosures in the explanatory notes to the financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the parent company Fincantieri SpA or to cease operations, or have no realistic alternative but to do so.
The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 February 2014, the shareholders of Fincantieri SpA in the general meeting engaged us to perform the statutory audit of the Company's stand alone and consolidated financial statements for the years ending 31 December 2013 to 31 December 2021. Following the appointment of the new Group auditor by the Shareholders' meeting of the Company's controlling shareholder, our audit engagement has been resolved by consensual resolution and will end with the approval of the 2019 financial statements by the Shareholders' meeting.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Fincantieri SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Fincantieri Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Fincantieri Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Fincantieri Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Fincantieri SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Trieste, 20 April 2020

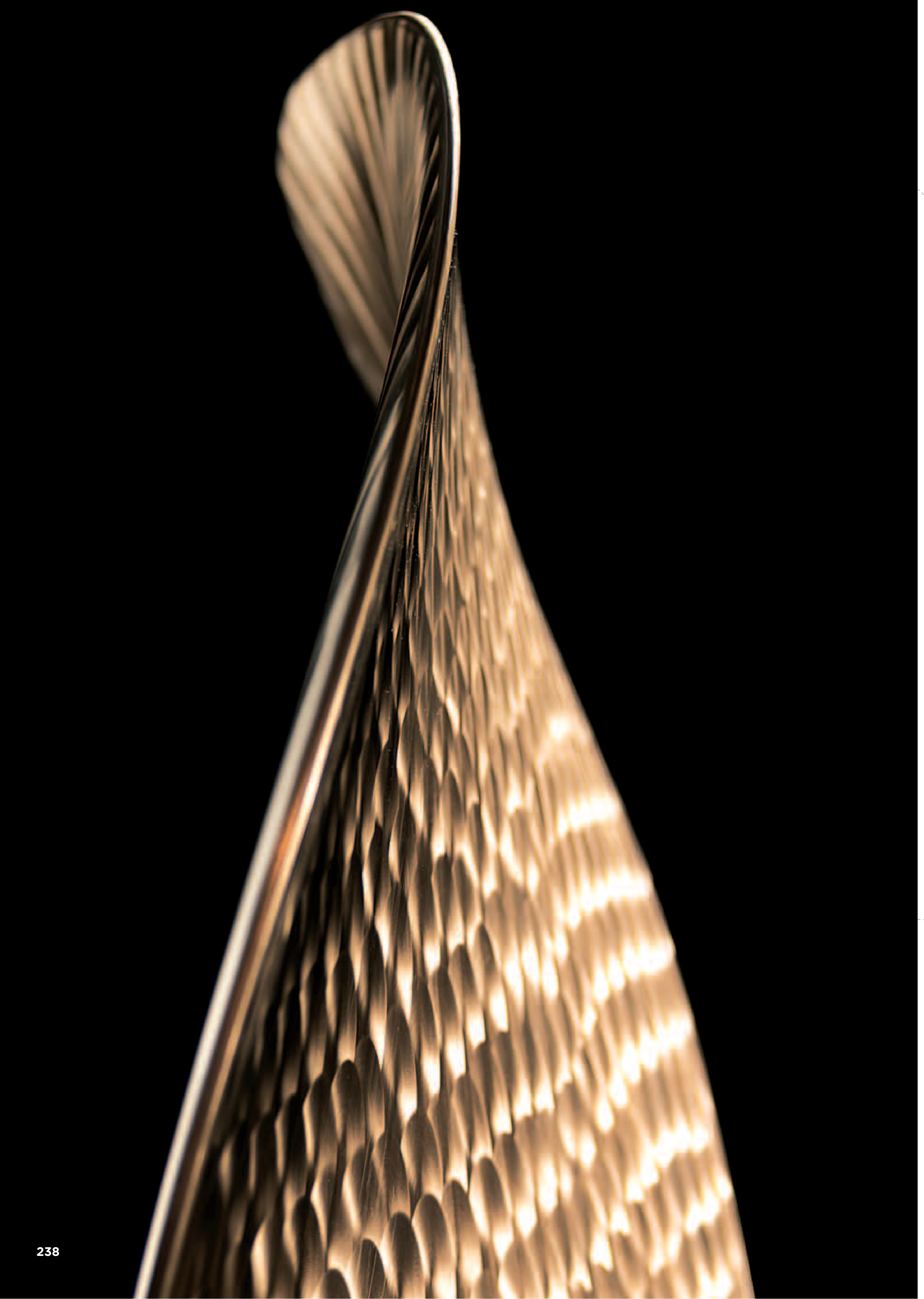
PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

FINCANTIERI GROUP / CONSOLIDATED FINANCIAL STATEMENTS



GLOSSARY

GLOSSARY

1 - Operating Activities

Shipowner
The entity that operates the ship, irrespective of whether it is the owner or not.

Dry-dock
Basin-like structure in which ships are built or repaired.

Order backlog
Residual value of orders not yet completed. This is calculated as the difference between the total value of an order (including any additions and amendments) and the value reported as "Work in progress" at the period-end reporting date.

Mega-Yachts
The business of building motor yachts that are at least 70 meters (230 feet) in length.

Merchant vessels
Ships intended for commercial purposes, mostly involving passenger transportation. Examples are cruise ships, ferries (either for transporting just vehicles or for both vehicles and passengers), container ships, oil tankers, dry and liquid bulk carriers, etc.

Naval Vessels
Vessels used for military purposes, such as surface combat vessels (aircraft carriers, destroyers, frigates, corvettes, patrol ships) as well as support craft and submarines.

Order intake
Value of new orders, including order additions and variations, awarded to the Company in each reporting period.

Order book
Value of principal contracts, order additions and variations, in respect of orders not yet delivered or fulfilled.

Soft Backlog
Value of existing contract options and letters of intent as well as of contracts at an advanced stage of negotiation, none of which yet reflected in the order backlog.

Total order book
This is calculated as the sum of the order book and soft backlog.

Total backlog
This is calculated as the sum of the order backlog and soft backlog.

Refitting/refurbishment
The business of refitting ships that are obsolete or no longer fit for use after changes in the law and/or regulations.

GT - Gross Tonnage
A unit that measures a ship's total internal volume, including its engine rooms, fuel tanks and crew quarters. Its measurement is based on the external area of the bulkheads.

CGT - Compensated Gross Tonnage
An international unit of measurement that provides a common way of measuring the amount of work needed to build a given ship. It is calculated by multiplying the GT of a ship by a coefficient determined according to the type and size of ship.

2 - Accounting and Finance

Impairment testing
This is the work performed by the Group to assess, at every reporting date, whether there is evidence that an asset might be impaired, by estimating its recoverable amount.

Business combination
This is the aggregation of entities or businesses into a single entity that is required to prepare financial statements.

Net fixed capital
This reports the fixed assets used in the business and includes Intangible assets, Property, plant and equipment, Investments and Other non-current assets (including the fair value of derivatives classified in non-current Financial assets and non-current Financial liabilities) net of Employee benefits.

Net working capital
This is equal to capital employed in ordinary operations which includes Inventories and advances, Construction contracts and advances from clients, Construction loans, Trade receivables, Trade payables, Provisions for risks and charges, and Other current assets and liabilities (including Income tax assets, Income tax liabilities, Deferred tax assets and Deferred tax liabilities, as well as the fair value of derivatives classified in current Financial assets and current Financial liabilities).

Net invested capital
This represents the sum of Net fixed capital and Net working capital.

CGU
Acronym for Cash-Generating Unit, defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

EBIT
Acronym for Earnings Before Interest and Taxes. It is defined as: Profit/(loss) for the year adjusted for the following items (i) Income taxes, (ii) Share of profit/(loss) of investments accounted for using the equity method, (iii) Income/(expense) from investments, (iv) Finance costs, (v) Finance income, (vi) costs associated with the "Wage Guarantee Fund", (vii) costs relating to reorganization plans and other non-recurring personnel costs, (viii) provisions for costs and legal expenses associated with lawsuits for asbestosrelated damages, and (ix) other non-recurring income and expenses.

EBITDA
Acronym for Earnings Before Interest, Taxes, Depreciation and Amortization. It is defined as: Profit/(loss) for the year adjusted for the following items (i) Income taxes, (ii) Share of profit/(loss) of investments accounted for using the equity method, (iii) Income/(expense) from investments, (iv) Finance costs, (v) Finance income, (vi) Depreciation, amortization and impairment; (vii) costs associated with the "Wage Guarantee Fund", (viii) costs relating to reorganization plans and other nonrecurring personnel costs, (ix) provisions for costs and legal expenses associated with lawsuits for asbestos-related damages, and (x) other non-recurring income and expenses.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IAS/IFRS
Acronyms for the International Accounting Standards and International Financial Reporting Standards, adopted by the Company.

Net expenditure/disposals
These represent investments and disinvestments in property, plant and equipment, intangible assets, equity investments and other net non-operating assets.

Operating capex
This represents investments in property, plant and equipment and intangible assets other than those acquired in a business combination and allocated to property, plant and equipment or intangible assets.

Net financial position
A line in the statement of financial position that summarizes the Company's financial position and includes:

- *Net current cash/(debt)*: cash and cash equivalents, trading securities, current financial receivables, current bank debt (excluding construction loans), current portion of long-term loans and credit facilities, other current financial liabilities;
- *Net non-current cash/(debt)*: noncurrent financial receivables, non-current bank debt, bonds, other non-current financial liabilities.

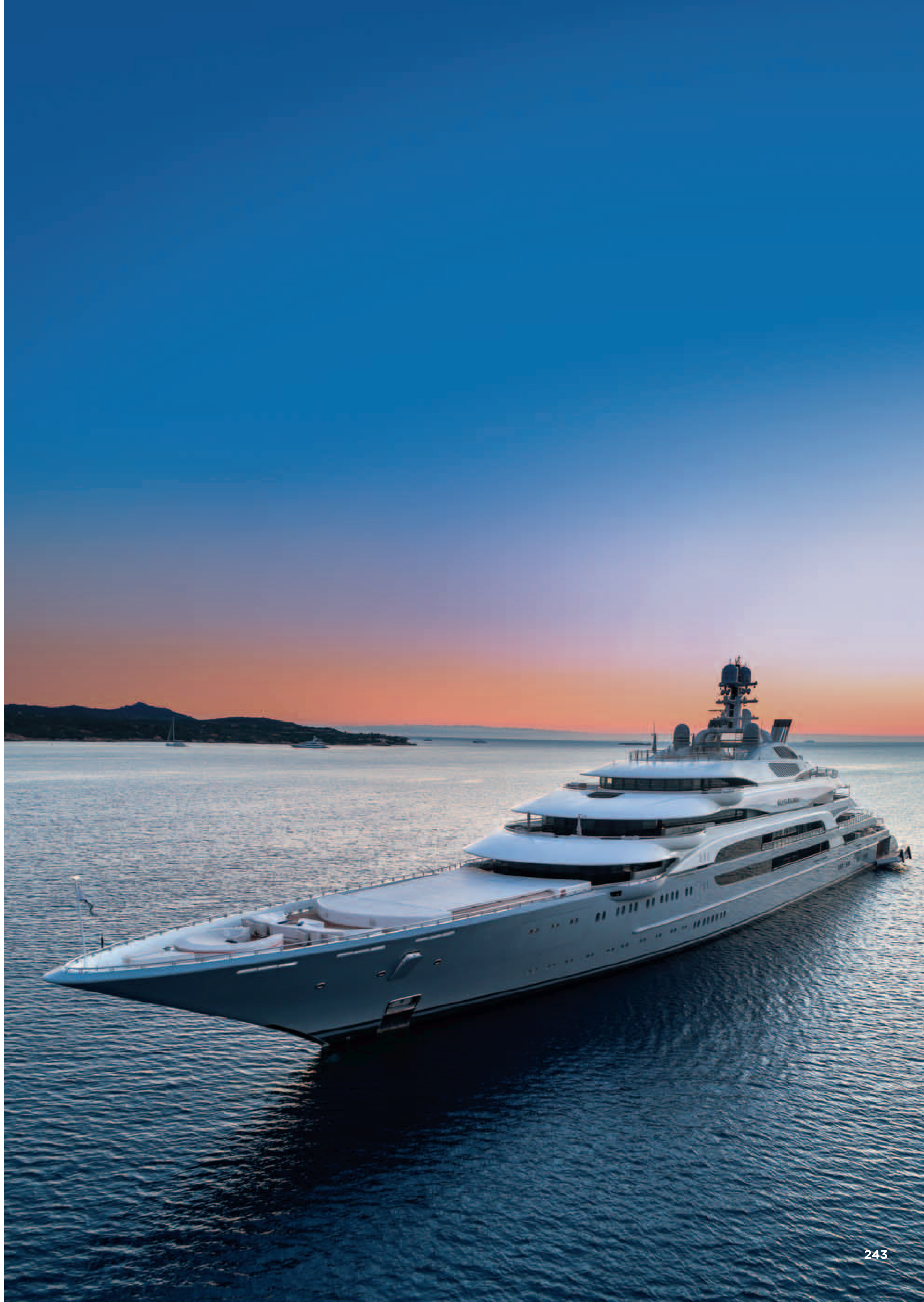
Statement of cash flows
This examines all the cash flows that caused changes in cash and cash equivalents, in order to determine "Net cash flows for the period", as the difference between cash inflows and outflows in the period.

Revenue
This line in the income statement reports revenue earned on contracts and revenue from the sale of various products and services.

Basic or diluted earnings per share
Basic earnings per share are calculated by dividing profit or loss for the reporting period attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period.
Diluted earnings per share are calculated in the same way as for basic earnings per share, but take account of all dilutive potential ordinary shares as follows:

- profit or loss attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares;
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

WACC
Acronym for Weighted Average Cost of Capital. This represents the average cost of the various sources of company financing, both in the form of debt and of capital.



FINCANTIERI

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Share capital Euro 862,980,725.70
Venezia Giulia Company Registry and Tax No. 00397130584
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Graphic design and layout
EY YELLO
Print by
Grafiche Manzanesi

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www.fsc.org
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